JSC Georgia Capital and Subsidiaries
Consolidated Financial Statements

31 December 2018

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INDEPENDENT AUDITOR'S REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the Shareholder and the Supervisory Board of JSC Georgia Capital

Opinion

We have audited the consolidated financial statements of JSC Georgia Capital and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed it
Revenue recognition	
Recognition of revenue across various businesses within the Group was a key audit matter due to the significance of revenue to the consolidated financial statements, the degree of management judgment involved in the determination of transition of control to customers as well as the complexity and judgmental nature of estimation process and assumptions used when measuring progress towards satisfaction of performance obligation satisfied over time. Moreover, requirements of IFRS 15 "Revenue from contracts with customers" (IFRS 15) are complex and there is relatively limited experience in its application. The disclosures related to the recognition of revenue are presented in note 25 to the consolidated financial statements.	We obtained an understanding of the revenue recognition process across different revenue streams covering all of the Group's businesses: healthcare, hospitality and commercial, housing development, water utility, insurance and beverages. We evaluated the relevant controls in the revenue cycle by assessing the design and tested the operational effectiveness of key controls, across the major revenue streams. We discussed key contractual arrangements with the management and inspected relevant documentation, where applicable, and assessed revenue recognition policies. We tested a sample of revenue transactions (including those around the reporting date) by tracing them to supporting documentation. We recalculated and assessed the inputs present in the manual adjustments posted by management at year end, including consignment sales adjustment at the beverages business; completion rates at the housing development business; as well as those used in the adjustment to long-term treatments in the healthcare business and in the water utility business. For the insurance businesses, we recalculated the multi-year adjustment and traced the inputs such as premium amount, commencement, expiry and cancellation dates to underlying accounting records. Within the healthcare business, we assessed revenue adjustment for the corrections and rebates through recalculation with reference to the historical corrections and rebates rate. We ran correlation analysis between the cash receipts during the year and the revenue recorded in the consolidated income statement on beverages and pharmaceutical revenue streams. We analysed unusual trends in revenue in water utility business.

Key audit matter	How our audit addressed it
Valuation of investment properties and infrastructure assets	
Property valuations are inherently uncertain and subject to an estimation process, particularly due to the fact that the Group's properties are located in Georgia, where the market for such assets is relatively illiquid. The measurement of investment property and investment property under construction at fair value was one of the matters of most significance in our audit because of the significance of the balances of investment property and investment property under construction and respective revaluation gains to the consolidated financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 4, 13, 14 and 31 to the consolidated financial statements disclose the information about investment properties and infrastructure assets, including the fair valuation and significant assumptions.	We tested the accuracy of the underlying property database by tracing the location and total area of the sample of properties to the Georgian public registry. We involved our real estate specialists to assist us in evaluating the Group's valuations of investment properties, including the following: • assessment of the competence, professional qualifications and objectivity of the external valuers involved by the Group; • through examining the valuation reports and discussion with management and the valuers, obtaining an understanding of the objectives and scope of the valuers' work, the methods and assumptions that they had used and the conclusions that they had reached; • evaluation of the methods and assumptions used in the valuation reports, including consideration as to whether there was contrary market intelligence that had not been taken into account in the valuers' analyses; In respect of the valuation of the infrastructure assets we: • compared the fair value measurement methodology adopted by management with the methodology used in the prior year;

Key audit matter	How our audit addressed it
	• obtained the discounted cash flow model prepared by management and involved our internal business valuation specialists to assist us with testing the financial model and evaluating the discount rate; assessed the key assumptions underpinning the cash flow projections, including but not limited to water tariffs and supply volumes, maintenance CAPEX, useful life of core assets, and EBITDA margin; and evaluated the growth forecasts during the plan period, having regard to historical performance and market expectations. We assessed recognition of the results of the valuations and the Group's disclosures in relation to the valuation of investment properties and infrastructure assets in the consolidated financial statements.
Assessment of the recoverable amount of property, plant and equipment in the beer business	
Assessment of the recoverable amount of property, plant and equipment in the beer business was a key audit matter due to the significance of the carrying value of the assets being assessed (amounting to GEL 98 million as at 31 December 2018), the underperformance of the beer business and because the assessment of the recoverable amount of the property, plant and equipment in the beer business involves significant judgments about the future results of the business, long term growth rate and the discount rate applied to the future cash flow forecast.	We evaluated the valuation methodology applied by management in determining the value in use. We assessed the discounted cash flow model prepared by management, as well the key assumptions: • we compared the cash flows underpinning the calculation with the budget; • we evaluated of projected sales volumes, sales prices, operating margin, CAPEX level with reference to peer and external market data; • we assessed the growth forecasts during the plan period;

Key audit matter	How our audit addressed it
Information on significant assumptions related to assessment of the recoverable amount of property, plant and equipment in the beer business is disclosed in note 4 to the consolidated financial statements.	• we involved our internal business valuation specialists to assist with our consideration of the discount rates and the long term growth rates by comparing the rates used to third party evidence and, in relation to the discount rate, to our independently estimated discount rates; • we analysed the sensitivity of the model to changes in the key inputs, stressing each of the above assumptions individually and in combination to assess reasonably possible changes in the key assumptions. We analysed the disclosures in the consolidated financial statements related to the impairment test of property, plant and equipment in the beer business.
Impairment of goodwill allocated to the pharmaceutical, healthcare and medical insurance businesses	
Impairment of goodwill allocated to the pharmaceutical, healthcare and medical insurance businesses is a key audit matter due to both the significance of its carrying value and the judgement inherent in the impairment testing. The management has to apply significant judgement and use unobservable inputs in forecasting the future cash flows of each cash-generating unit (CGU) and in determining appropriate discount rates. Information on goodwill is disclosed in notes 4 and 15 to the consolidated financial statement.	We assessed the valuation methodology applied by management in determining the value in use. We performed evaluation of the discounted cash flow models prepared by the management, including the key assumptions, in particular: • we reconciled the cash flows underpinning the calculation to the approved three year strategic plan; • we evaluated the short and long-term growth forecasts, by analysing the historical accuracy of budgeting; • we involved our internal business valuations specialists to assist with our consideration of the discount and long-term growth rates; and • we stressed each of the key inputs individually and in combination to assess reasonably possible changes in the key assumptions. We evaluated the disclosures related to goodwill impairment.

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Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Marchello Gelashvili

Marchello Gelashvili

On behalf of EY LLC

Tbilisi, Georgia

19 April 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	*31 December 2018*	*31 December 2017*
Assets			
Cash and cash equivalents	8	253,349	346,241
Amounts due from credit institutions	9	40,299	38,141
Debt securities owned	10	71,824	31,907
Equity investments at fair value	10	457,495	1,153
Accounts receivable	11	170,228	35,337
Insurance premiums receivable		57,801	30,855
Inventories	12	278,615	80,110
Investment properties	13	151,232	159,989
Prepayments		117,818	87,760
Income tax assets	17	2,405	1,374
Property and equipment	14	1,671,917	657,635
Goodwill	15	142,095	21,935
Intangible assets	15	51,634	5,457
Other assets	16	251,462	69,870
Assets of disposal group held for sale	6	-	1,148,584
Total assets		**3,718,174**	**2,716,348**
Liabilities			
Accounts payable	22	143,114	42,987
Insurance contracts liabilities	18	68,207	46,403
Income tax liabilities	17	1,119	860
Deferred income	21	62,059	73,066
Borrowings	19	764,355	650,734
Debt securities issued	20	916,401	77,835
Other liabilities	16	235,180	63,206
Liabilities of disposal group held for sale	6	-	619,029
Total liabilities		**2,190,435**	**1,574,120**
Equity	24		
Share capital		11,526	10,000
Additional paid-in capital		498,729	466,187
Treasury shares		(532)	-
Other reserves		497,659	171,254
Retained earnings		191,352	197,222
Total equity attributable to the shareholder of JSC Georgia Capital		**1,198,734**	**844,663**
Non-controlling interests		329,005	297,565
Total equity		**1,527,739**	**1,142,228**
Total liabilities and equity		**3,718,174**	**2,716,348**

Signed and authorised for release on behalf of the Management by:

Irakli Gilauri Chief Executive Officer

Giorgi Alpaidze Chief Financial Officer

19 April 2019

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	*2018*	*2017 (Represented)**
Revenue		1,282,866	1,127,170
Cost of sales		(796,191)	(695,709)
Gross profit	25	**486,675**	**431,461**
Salaries and other employee benefits	26	(135,824)	(107,212)
Administrative expenses	26	(105,740)	(85,699)
Other operating expenses		(11,601)	(12,837)
Expected credit loss / impairment charge on financial assets	27	(10,610)	(6,171)
Impairment charge on insurance premium receivables, other assets and provisions	27	(2,179)	(1,421)
		(265,954)	**(213,340)**
EBITDA		**220,721**	**218,121**
Share in profit of associates		247	376
Dividend income		23,875	-
Depreciation and amortisation		(74,155)	(54,031)
Net foreign currency loss		(37,658)	(6,737)
Interest income		23,237	8,909
Interest expense		(91,619)	(60,903)
Net operating income before non-recurring items		**64,648**	**105,735**
Net non-recurring items	28	(29,486)	(5,330)
Profit before income tax expense		**35,162**	**100,405**
Income tax expense		(3,606)	(6,136)
Profit for the year		**31,556**	**94,269**
Total profit attributable to:			
– the shareholder of JSC Georgia Capital		5,149	70,125
– non-controlling interests		26,407	24,144
		31,556	**94,269**

**2017 consolidated income statement and respective notes have been re-presented to include the figures of Georgia Healthcare Group PLC, a subsidiary of the Group previously presented as disposal group held for sale. For details, please refer to Note 6.*

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	*2018*	*2017 (Represented)*
Profit for the year		**31,556**	**94,269**
Other comprehensive income / (loss)			
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:			
Income / (Loss) from currency translation differences		9,191	(1,984)
Changes in the fair value of debt instruments at FVOCI (2017: available-for-sale)		(1,207)	47
Realised loss on financial assets measured at FVOCI (2017: available-for-sale) reclassified to the consolidated income statement		-	(2)
Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI		117	-
Income tax impact	17	-	165
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**8,101**	**(1,774)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity instruments designated at FVOCI (note 24)		(248,505)	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(248,505)**	**-**
Other comprehensive loss for the year, net of tax		**(240,404)**	**(1,774)**
Total comprehensive (loss) / income for the year		**(208,848)**	**92,495**
Total comprehensive (loss) / income attributable to:			
– the shareholder of JSC Georgia Capital		(236,231)	68,618
– non-controlling interests		27,383	23,877
		(208,848)	**92,495**

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Attributable to the shareholder of Georgia Capital						
	Share capital	***Additional paid-in capital***	***Other reserves***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total Equity***
31 December 2016	**8,482**	**368,166**	**118,869**	**151,536**	**647,053**	**228,814**	**875,867**
Effect of early adoption of IFRS 15	-	-	-	(17,622)	(17,622)	(601)	(18,223)
1 January 2017	**8,482**	**368,166**	**118,869**	**133,914**	**629,431**	**228,213**	**857,644**
Profit for the year	-	-	-	70,125	70,125	24,144	94,269
Other comprehensive loss for the year	-	-	(1,152)	(357)	(1,507)	(267)	(1,774)
Total comprehensive income for the year	**-**	**-**	**(1,152)**	**69,768**	**68,618**	**23,877**	**92,495**
Transfer of revaluation reserve at disposals	-	-	(540)	540	-	-	-
Issue of share capital (Note 24)	1,518	101,279	-	-	102,795	-	102,795
Increase in equity arising from share-based payments (Note 29)	-	11,202	-	-	11,202	1,495	12,697
Dividends paid by subsidiaries	-	-	-	(7,000)	(7,000)	-	(7,000)
Sale of interests in existing subsidiaries*	-	-	71,980	-	71,980	36,623	108,603
Dilution of interests in subsidiaries	-	-	506	-	506	1,547	2,053
Increase in share capital of subsidiaries	-	-	-	-	-	14,493	14,493
Acquisition of non-controlling interests in existing subsidiaries	-	-	(18,409)	-	(18,409)	(43,919)	(62,328)
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	35,236	35,236
Contributions under share-based payment plan	-	(14,460)	-	-	(14,460)	-	(14,460)
31 December 2017	**10,000**	**466,187**	**171,254**	**197,222**	**844,663**	**297,565**	**1,142,228**

** The Group sold approximately 7% equity interest in Georgia Healthcare Group PLC. Following the sale, the Group held 57% equity interests in GHG in 2017 and 2018.*

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Attributable to the shareholder of Georgia Capital							
	Share capital	*Additional paid-in capital*	*Treasury Shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total Equity*
31 December 2017	**10,000**	**466,187**	**-**	**171,254**	**197,222**	**844,663**	**297,565**	**1,142,228**
Effect of adoption of IFRS 9 (Note 3)	-	-	-	192	(10,808)	(10,616)	(3,216)	(13,832)
1 January 2018	**10,000**	**466,187**	**-**	**171,446**	**186,414**	**834,047**	**294,349**	**1,128,396**
Profit for the year	-	-	-	-	5,149	5,149	26,407	31,556
Other comprehensive (loss) income for the year	-	-	-	(241,380)	-	(241,380)	976	(240,404)
Total comprehensive loss for the year	**-**	**-**	**-**	**(241,380)**	**5,149**	**(236,231)**	**27,383**	**(208,848)**
Issue of share capital (Note 24)	1,526	127,844	-	577,913	-	707,283	-	707,283
Increase in equity arising from share-based payments (Note 29)	-	32,282	-	-	-	32,282	6,062	38,344
Dilution of interests in subsidiaries	-	-	-	2,760	-	2,760	(2,760)	-
Increase in share capital of subsidiaries*	-	-	-	-	-	-	23,348	23,348
Acquisition of non-controlling interests in existing subsidiaries***	-	-	-	(13,080)	-	(13,080)	(8,629)	(21,709)
Non-controlling interests arising on acquisition of subsidiary (Note 5)	-	-	-	-	-	-	44	44
Dividends paid by subsidiaries**	-	-	-	-	(211)	(211)	(10,792)	(11,003)
Other purchases of treasury shares (Note 24)	-	(63,936)	(532)	-	-	(64,468)	-	(64,468)
Contributions under share-based payment plan	-	(63,596)	(52)	-	-	(63,648)	-	(63,648)
31 December 2018	**11,526**	**498,781**	**(584)**	**497,659**	**191,352**	**1,198,734**	**329,005**	**1,527,739**

** The minority shareholder of the Group in Georgian Renewable Power Company JSC contributed 23,348 kGEL to the equity in 2018.*
*** JSC GEPHA, a subsidiary of the Group's healthcare business, paid dividend to its minority shareholders in the amount of 10,792 kGEL.*
****GEL (6,446) change in non-controlling interest is related to deemed acquisition of NCI arising from share acquisition put option issued in 2017 to non-controlling shareholders of GEPHA".*

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	*2018*	*2017 (Represented)*
Cash flows from operating activities			
Revenue received		1,196,852	1,039,032
Cost of goods sold paid		(818,201)	(718,745)
Net realised loss from foreign currencies		-	(483)
Net other (expense paid) / income received		(1,936)	1,741
Salaries and other employee benefits paid		(107,566)	(82,143)
General, administrative and operating expenses paid		(109,173)	(89,919)
Interest received		22,253	8,909
Net change in operating assets and liabilities		(2,324)	2,767
Net cash flows from operating activities before income tax		**179,905**	**161,159**
Income tax paid		(2,423)	(6,135)
Net cash flow from operating activities		**177,482**	**155,024**
Cash flows used in investing activities			
Net withdrawals of amounts due from credit institutions		14,586	18,074
Loans (issued)/repaid		(135,785)	1,617
Acquisition of subsidiaries, net of cash acquired	5	(25,339)	(59,076)
Repayment of remaining holdback amounts from previous year acquisitions		(14,820)	(6,390)
Purchase of debt securities		(62,297)	(2,463)
Proceeds from sale and redemption of debt securities		28,780	-
Proceeds from sale of investment properties	13	2,566	402
Purchase and construction of investment properties	13	(20,397)	(17,199)
Proceeds from sale of property and equipment and intangible assets		1,496	6,968
Purchase of property and equipment		(378,928)	(352,880)
Purchase of intangible assets		(23,919)	(17,547)
Dividends received		23,875	-
Net cash flows used in investing activities		**(590,182)**	**(428,494)**

The accompanying notes on pages 8 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018
(Thousands of Georgian Lari)

	Notes	*2018*	*2017 (Represented)*
Cash flows from financing activities			
Proceeds from borrowings	19	247,574	454,374
Repayment of borrowings	19	(393,981)	(8,503)
Proceeds from debt securities issued	19	747,184	40,000
Redemption and buyback of debt securities issued	19	(80,747)	(18,533)
Purchase of treasury shares	24	(64,468)	-
Proceeds from issue of share capital		-	24,244
Dividends paid	24	(10,012)	(7,000)
Interest paid		(96,312)	(71,036)
Contributions under share-based payment plan		(66,701)	(14,460)
Increase in share capital of subsidiaries		2,675	14,651
Purchase of additional interest in existing subsidiaries		(5,719)	-
Proceeds from sale of interests in existing subsidiaries		-	108,603
Net cash from financing activities		**279,493**	**522,340**
Effect of exchange rates changes on cash and cash equivalents		(8,524)	(12,657)
Effect of change in expected credit losses for cash and cash equivalents		(1)	-
Net (decrease) increase in cash and cash equivalents		**(141,732)**	**236,213**
Cash and cash equivalents, beginning of the year	8	**346,241**	**158,868**
Cash and cash equivalents of disposal group held for sale, beginning of the year	6	**48,840**	**-**
Cash and cash equivalents of disposal group held for sale, end of the year	6	**-**	**48,840**
Cash and cash equivalents, end of the year	8	**253,349**	**346,241**

1. Principal Activities

JSC Georgia Capital ("Georgia Capital") makes up a group of companies (the "Group"), focused on investing in and developing businesses in Georgia. Group principally operates in utility and renewable energy, property and casualty insurance, housing development, hospitality and commercial - property construction and development, wine and beer production businesses through privately held subsidiaries. In addition to its privately held subsidiaries, the Group owns healthcare, pharmaceutical and medical insurance businesses through London Stock Exchange premium-listed Georgia Healthcare Group PLC and has significant investment in London Stock Exchange premium listed Bank of Georgia Group PLC.

Georgia Capital's registered legal address is Kazbegi street 3-5, Tbilisi Georgia.

JSC Georgia Capital was established on 6 August 2015 as a joint stock company (JSC) under the laws of Georgia. As of 31 December 2017, the Group's ultimate 100% owner was BGEO Group PLC ("BGEO" currently BGEO Group Limited), a company incorporated in England and listed on the London Stock Exchange.

On 29 May 2018 BGEO Group PLC ("BGEO") completed demerger of its business activities into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC. As a result, Georgia Capital PLC became ultimate parent of JSC Georgia Capital.

2. Basis of Preparation

General

The consolidated financial statements of JSC Georgia Capital have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

These financial statements are prepared under the historical cost convention except for:

• the measurement at fair value of debt securities owned and equity investments, derivative financial assets and liabilities, investment properties, and revalued property and equipment;

• the measurement of inventories at lower of cost and net realisable value;

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

The Board of Directors of Georgia Capital has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Subsidiaries and associates

The consolidated Financial Statements as at 31 December 2018 and 31 December 2017 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	***31 December 2018***	***31 December 2017***	***Country of incorporation***	***Address***	***Industry***	***Date of incorporation***	***Date of acquisition***
⇒ JSC m2 Real Estate	100.00%	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	100.00%	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	100.00%	100.00%	Georgia	16 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	100.00%	100.00%	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	100.00%	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
⇒ M Square Park, LLC	100.00%	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	100.00%	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
⇒ m2 at Vake, LLC	100.00%	100.00%	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
⇒ m2 Hospitality, LLC	100.00%	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	100.00%	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	12/2/2014	–
⇒ m2 Kutaisi, LLC	100.00%	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ m2 at Melikishvili, LLC	100.00%	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ Kass 1, LLC	67.00%	60.00%	Georgia	20 Merab Kostava st., Tbilisi	Real estate	16/10/2014	27/12/2017
⇒ Kakheti Wine and Spa, LLC	100.00%	-	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	23/04/2018	–
⇒ m2 at Gudauri, LLC	100.00%	-	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	24/04/2018	–
⇒ m2 Zugdidi, LLC	100.00%	-	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	7/11/2018	–
⇒ m2 Svaneti, LLC	100.00%	-	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	14/11/2018	–
⇒ m2 at Chavchavadze LLC	100.00%	100.00%	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–
⇒ m2 Commercial Properties LLC	100.00%	100.00%	Georgia	80 Chavchavadze Ave., Tbilisi	Real estate	11/6/2014	–
⇒ Caucasus Autohouse, LLC	100.00%	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	29/3/2011	–
⇒ Land, LLC	100.00%	100.00%	Georgia	Between university and Kavtaradze st.,Tbilisi	Real estate	3/10/2014	–
⇒ BK Construction, LLC	100.00%	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	18/5/2017	2/6/2017
⇒ m2 Commercial Assets, LLC	100.00%	-	Georgia	Tbilisi, Chavchavadze ave. 29	Real estate	4/10/2018	–
⇒ Melikishvili Business Center, LLC	100.00%	-	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	4/12/2018	–
⇒ Georgia Hospitality Management Group, LLC	100.00%	-	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Real estate	22/8/2018	

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
⇒ JSC Georgian Renewable Power Company	65.00%	65.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	85.00%	85.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	100.00%	100.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	100.00%	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	20/8/2015	–
⇒ JSC Caucasian Wind Company	100.00%	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
⇒ JSC Caucasian Solar Company	100.00%	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
⇒ JSC A Group	100.00%	-	Georgia	1, Berbuki str., Saburatlo, Tbilisi	Various	20/9/2018	–
⇒ JSC Insurance Company Aldagi	100.00%	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	100.00%	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	100.00%	100.00%	Georgia	20, Chavchavadze ave., floor 2, Vake-Saburtalo, Tbilisi	Various	3/1/2000	30/4/2012
⇒ Auto Way LLC (formerly known as Green Way, LLC)	100.00%	100.00%	Georgia	20, Chavchavadze ave., Vake, Tbilisi	Various	9/8/2004	30/4/2012
⇒ Insurance Informational Bureau, LLC	22.50%	22.50%	Georgia	Baratashvili bridge underground crossing, Mtkvari Left Bank, Old Tbilisi, Tbilisi	Insurance	23/7/2007	–
⇒ JSC Uno Leasing (formerly known as JSC AMF)	100.00%	100.00%	Georgia	3, Pushkini str., Krtsanisi, Tbilisi	Leasing	17/11/2017	–
⇒ JSC Greenway Georgia (formerly known as Premium Residence, LLC)	100.00%	100.00%	Georgia	6, University str., Vake, Tbilisi	Vehicle Inspection	9/7/2010	1/5/2012
⇒ GreenWash, LLC	100.00%	-	Georgia	6, University str., Vake, Tbilisi	Car Wash	31/8/2018	–
⇒ Georgia Healthcare Group PLC	57.05%	57.05%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L	100.00%	100.00%	Georgia	9, Anna Politkovskaias Str. Vake-Saburtalo District, Tbilisi	Insurance	22/6/2007	–
⇒ JSC GEPHA	67.00%	67.00%	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
⇒ JSC ABC Pharamcia (Armenia)	100.00%	100.00%	Armenia	Kievnaia sts. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
⇒ ABC Pharmalogistics, LLC	100.00%	100.00%	Georgia	Sanapiro Str.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
⇒ JSC Medical Corporation EVEX	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	66.70%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
⇒ Patgeo, LLC	100.00%	100.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
⇒ GN KO, LLC	50.00%	50.00%	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	100.00%	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	-	50.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	80.00%	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	100.00%	100.00%	Georgia	U. Chkeidze str. N 10, Tbilisi	Medical services	18/6/2013	5/8/2015
⇒ JSC Pediatria	76.00%	76.00%	Georgia	1, t. Chkheidze str., Didube-Chugureti District, Tbilisi	Medical services	5/9/2003	5/7/2016
⇒ Emergency Service, LLC	100.00%	100.00%	Georgia	#2, D. Uznadze st., Tbilisi	Medical services	28/7/2009	6/1/2016
⇒ JSC Poti Central Hospital (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	Guria str. 171, Poti	Medical services	29/10/2014	1/1/2016
⇒ Deka, LLC	97.20%	97.20%	Georgia	23, P. Kavtaradze Str., Tbilisi	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	2/2/2015	–
⇒ EVEX Collection, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	25/3/2016	–
⇒ Unimed Achara, LLC (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
⇒ Unimedi Kakheti, LLC (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	20 Chavchvadze ave Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ M. Iashvili Children's Central Hospital, LLC (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	2/6 Lubliana Street, Tbilisi	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical Service	6/3/2000	19/2/2014
⇒ Iv Bokeria Tbilisi Referral Hospital (merged with JSC Medical Corporation Evex)	100.00%	100.00%	Georgia	Kindzmarauli I turn, N1 , Isan-Samgori, Tbilisi	Medical Service	16/3/2017	–
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (merged with JSC Medical Corporation Evex)	96.87%	96.87%	Georgia	9 Paolo Iashvili street, Kutaisi	Medical services	3/11/2000	20/5/2008
⇒ Referral Centre of Pathology, LLC	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
⇒ EVEX Learning Center	100.00%	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
⇒ JSC Mega-Lab	100.00%	100.00%	Georgia	23 Kavtaradze str., Tbilisi	Medical services	6/6/2017	–
⇒ New Clinic, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
⇒ Alliance Medi, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
⇒ Medical Center Alimedi, LLC	-	100.00%	Georgia	17 R. Tabukashvili str., Tbilisi	Medical services	27/9/2003	8/11/2017
⇒ JSC Polyclinic Vere	97.80%	97.80%	Georgia	18-20 Kiacheli str.,Tbilisi	Medical services	22/11/2017	25/12/2017
⇒ New Dent, LLC	75.00%	-	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	24/12/2017	–
⇒ JSC Vabaco	67.00%	-	Georgia	37. Bochorishvili Str. Saburtalo district, Tbilisi	Software Developer	3/9/2013	28/9/2018
⇒ Georgian Global Utilities, LLC	100.00%	100.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
⇒ Georgian Water and Power, LLC	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
⇒ Rustavi Water, LLC	100.00%	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
⇒ Gardabani Sewage Treatment, LLC	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
⇒ Mtskheta Water, LLC	100.00%	100.00%	Georgia	Aghmashenebeli St., Mtskheta	Utilities	1/9/1999	31/12/2014
⇒ Georgian Engineering and Management Company (GEMC), LLC	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/03/2011	31/12/2014
⇒ JSC Saguramo Energy	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
⇒ JSC Teliani Valley	77.62%	75.75%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007
⇒ Georgia Logistics and Distribution, LLC (Formerly known as Teliani Trading (Georgia), LLC)	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	100.00%	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	70.00%	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	100.00%	100.00%	Georgia	Tsilkani, Mtskheta Region, Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ Global Coffee Georgia, LLC		100.00%	Georgia	29a Gagarini street, Tbilisi	Coffee Distribution	26/12/2016	–
⇒ New Coffee Company, LLC		100.00%	Georgia	Tskneti Highway, №16/18, app. 36	Coffee Distribution	23/9/2009	15/2/2017
⇒ Genuine Brewing Company, LLC	100.00%	-	Georgia	75 Chavchavadze Ave., Tbilisi	Beer Production and Distribution	14/11/2016	7/2/2018
⇒ JSC Georgian beverages	100.00%	-	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Oak Barrel Production	7/6/2016	–
⇒ Kindzmarauli Marani, LLC	100.00%	-	Georgia	56 A. Tsereteli Ave., Tbilisi	Winery	18/12/2001	25/4/2018
⇒ JSC Liberty Consumer	75.10%	98.28%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
⇒ JSC Intertour	99.94%	99.94%	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	100.00%	100.00%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–

In May 2017, the Group sold 7.21% equity interests in Georgia Healthcare Group PLC, received net proceeds of GEL 96,998 and recognized GEL 63,382 unrealized gain on sale of interests in existing subsidiaries.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Associates	*Proportion of voting rights and ordinary share capital held* 31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	35.00%	35.00%	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016
JSC Isani Parki	6.00%	6.00%	Georgia	Kakheti Highway, Isani, Tbilisi	Real estate	18/12/2017	–

3. Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, Financial Instruments is measured at fair value with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. Summary of Significant Accounting Policies (continued)

Business combination under common control

The business combinations under common control are accounted for using pooling of interest method with restatement of periods prior to the combination under common control.

The assets and liabilities acquired are recognized at carrying amounts to reflect the combination as if it had occurred from the beginning of the earliest period presented and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognized as a result of business combination under common control.

Investments in associates and joint ventures

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate or joint venture. The Group's share of its associates' and joint ventures' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group is considered an organization similar to a venture fund. When the Group acquires an associate, at initial recognition, the Group makes an irrevocable choice to measure investment in associate under the equity method or at fair value through profit or loss under IFRS 9.

Fair value measurement

The Group measures financial instruments, such as debt securities owned, equity investments, derivatives and non-financial assets such as investment properties and revalued property, plant and equipment at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the statement of cash flows.

The asset or disposal group ceases to be classified as held for sale if the criteria for classification are no longer met. Non-current asset or disposal group that ceased to be classified as held for sale is measured at the lower of (a) carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment to carrying amount of non-current asset that ceases to be classified as held for sale is recognized in income statement in the period in which criteria for held for sale classification are no longer met. Financial statements for the periods since classification as held for sale are amended accordingly if the disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

The results of operations of the component previously presented in discontinued operations is reclassified and included in income from continuing operations for all periods presented. Amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods are not reclassified to reflect the classification in the statement of financial position for the latest period presented.

3. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Financial assets

Initial recognition

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under debt securities owned.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments and listed equity investment in Bank of Georgia Group PLC under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, borrowings including bank overdrafts and debt securities issued.

Borrowings and debt securities issued

Borrowings and debt securities issued are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings and debt securities issued are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when borrowings are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables, included in other assets, primarily comprise of balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Deferred acquisition costs

Deferred acquisition costs ("DAC"), included in insurance premiums receivable, are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

Investment properties

Investment property is a land or building or a part of a building held to earn rental income or for capital appreciation purposes and which is not used by the Group or held for sale in the ordinary course of business. Property that is under construction, is being developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualifications and who have recent experience in valuation of property of similar location and category. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in the period in which they arise.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment properties are derecognized either when they have been disposed of or they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of derecognition.

Property and equipment

Property and equipment, except for infrastructure assets, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Infrastructure assets are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increase in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost infrastructure assets are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough (market value changes are monitored at least once in a year) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	Up to 100
Hospitals and clinics	100
Hotels	Up to 100
Infrastructure assets	10-40
Factory and equipment	7-30
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition including borrowing costs. The cost of inventory is determined on a weighted average basis for beverages and inventory in healthcare segment and first in first out basis ("FIFO") in the pharma segment. The cost of inventory in real estate segment is determined with reference to the specific costs incurred on the property sold and allocated non-specific costs based on the relative size of the property sold.

3. Summary of Significant Accounting Policies (continued)

Biological assets

Biological assets comprise grapes on the vine. Upon harvest the grapes are measured at fair value less costs to sell with any fair value gain or loss recognized in the consolidated income statement.

Intangible assets

The Group's intangible assets include computer software and licenses and exclusive rights.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of Georgia Capital PLC ('equity settled transactions') as consideration for the services provided.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value of shares at the grant date.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Equity-settled transactions (continued)

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.
Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

When the Group purchases shares of Georgia Capital or Georgia Capital PLC, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Insurance income and expense

- Premiums written
  Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year before deduction of commission and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on monthly pro rata basis.
- Premiums ceded
  Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.
- Provision for unearned premiums
  The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated statement of comprehensive income in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.
- Benefits and claims
  General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.
  Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims.

Income and expense recognition healthcare and pharma revenue

The Group recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Healthcare services that the Group provides to the clients are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group.
Healthcare revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes the following components:

- Healthcare revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies by reference to the stage of completion of the actual medical service and agreed-upon terms between the counterparties.

- Healthcare revenue from state – The Group recognises the revenue from the individuals who are insured under the state programmes by reference to the stage of completion of the actual medical service and the agreed-upon terms between the counterparties.

- Healthcare revenue from out-of-pocket and other – The Group recognises the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the State). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied to gross amount of invoices that were not approved by the state as at reporting date. The Group's gross revenue (before deducting its corrections and rebates) is based on the official invoices submitted to and formally accepted by the customers (State, insurance companies, provider clinics and individuals) and accruals for already performed but not yet billed service.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Income and expense recognition healthcare and pharma revenue (continued)

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and drug exchange transactions. The pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

Utility and energy revenue

The Group recognizes revenue from utility when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must be met before revenue is recognized:

- Revenue from water supply – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognizes revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.
- Revenue from connection and water meter installation – includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Revenue from connection and water meter installation is recognized over the time in line with the satisfaction of performance obligation over the life of water meters.

Revenue from electric power sales is recognised on the basis of metered electric power transferred.

Real estate revenue

Gross real estate profit comprises revenue from sale of developed real estate property, revenue from construction services, revenue from hospitality operations and revaluation gains on investment properties.

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognize revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such payments are recognized as deferred income. Significant financing component is usually immaterial.

Revenue from construction services is recognized over the time based on the progress towards complete satisfaction of a performance obligation using output method based on the completion level reflected in monthly completion reports. Payment arrangements for construction services usually include advance payment of part of transaction price (usually up to 10%) and monthly progress payments during the construction by the customer, 5% from each monthly progress payment is usually retained by the customer as guarantee for a year after the completions of construction. Significant financing component is usually immaterial.

Revenue from hospitality operations is generated through hotel room and meeting space rental and sale of foods and beverages. Revenue is recognized when the Group satisfies a performance obligation, i.e. over the time the customer stays in the hotel and food and beverages are delivered to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Beverage revenue

Revenue from the sale of beverages is recognised when the group satisfies the performance obligation, i.e. when the control of the goods has passed to the buyer, usually on delivery of the goods. For the finished goods sold on consignment basis, revenue is recognized when the goods are transferred to the end-customer or on expiration of specified period. Revenue recognized in connection to the sale of finished goods reflects an adjustment for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer).

Gain on measurement of grapes at fair value less costs to sell is recognized at the point of harvest.

Revenue from customer loyalty program

Customer loyalty program points accumulated in the business are treated as deferred revenue and recognized in revenues gradually as they are earned. The Group recognizes gross revenue earned from customer loyalty program when the performance obligation is satisfied i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilized by customers based on statistical data. These points are treated as liability in the statement of financial position and are only recognized in revenues when points are earned or expired.

Interest and similar income and expense

For all debt financial instruments measured at amortised cost and fair value through OCI interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

EBITDA

The Group separately presents EBITDA on the face of the consolidated income statement. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net foreign currency (loss) gain, profits from associates and net non-recurring items.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Group and its subsidiaries operate.

The annual profit earned by entities is not taxed in Georgia, except for insurance companies. Corporate income tax is paid on dividends, donations, abnormal losses, non-business related disbursements, etc. The corporate income tax arising from the payment of dividends is accounted for as a liability and expensed in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The corporate income tax rate is 15% in Georgia.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Functional, presentation currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net foreign currency gain (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign currency gain (loss). The official NBG exchange rates at 31 December 2018 and 31 December 2017 were as follows:

	Lari to GBP	*Lari to USD*	*Lari to EUR*
31 December 2018	3.3955	2.6766	3.0701
31 December 2017	3.5005	2.5922	3.1044

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations

The nature and the effect of these changes are disclosed below:

IFRS 9 Financial Instruments:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 did not restate comparative information.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's accounts receivables, cash and cash equivalents, amounts due from credit institutions and loans disbursed. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted and some quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's investment in equity instruments were classified as AFS financial assets. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Net gains and losses, including any interest or dividend income from financial assets at FVPL, are recognised in profit or loss Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table below summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at 1 January 2018 and shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	ECL	New carrying amount under IFRS 9
Assets					
Cash and cash equivalents	Loan and receivables	Amortised cost	346,241	(2)	346,239
Amounts due from credit institutions	Loan and receivables	Amortised cost	38,141	-	38,141
Debt securities owned			31,907	-	31,907
Debt securities	Available for sale	FVOCI - debt	*31,907*	-	*31,907*
Equity investments at fair value			1,153	-	1,153
Corporate shares	Available for sale	FVOCI - Designated	*1,153*	-	*1,153*
Accounts receivable	Loan and receivables	Amortised cost	158,725	(13,830)	144,895
Total assets			**2,716,348**	**(13,832)**	**2,702,516**
Total liabilities			**1,574,120**	**-**	**1,574,120**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

In addition to the application of new measurement categories under IFRS 9, the Group changed the presentation of debt and equity investment securities, which are presented separately as "debt securities owned" and "equity investments at fair value" in the statement of financial position. Prior to the change, debt and equity investment securities were presented together as "investment securities".

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans disbursed and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., amounts due from credit institutions and loans at amortised cost and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings and NCI: Line items that were not affected by the changes have not been included. As a result, total equity cannot be recalculated from the numbers provided.

	Retained earnings	Other reserves	Non controlling interest	Total equity
Closing balance under IAS 39 (31 December 2017)	**197,222**	**171,254**	**297,565**	**1,142,228**
Reclassifications under IFRS 9	-	-	-	-
Recognition of expected credit loss under IFRS 9 for assets at amortised cost	(10,616)	-	(3,216)	(13,832)
Recognition of expected credit loss under IFRS 9 for assets at FVOCI	(192)	192	-	-
Opening balance under IFRS 9 (1 January 2018)	**186,414**	**171,446**	**294,349**	**1,128,396**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

The following table demonstrates the impact on opening balance of loss allowance:

	Loss allowance under IAS 39/IAS 37 at 31 December 2017	ECL	Loss allowance under IFRS 9 at 1 January 2018
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)			
Cash and cash equivalents	-	(2)	(2)
Debt securities owned	-	(192)	(192)
Accounts receivable	(18,695)	(13,830)	(32,525)
Total impact of adopting IFRS 9 at 1 January 2018	**(18,695)**	**(13,832)**	**(32,527)**

(c) Hedge accounting

The Group continues to apply the hedge accounting requirements of IAS 39.

(d) Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as assets held for sale and liabilities associated with them and exchange differences on translation of foreign operations were adjusted as necessary.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (continued)

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for share-based transactions with net settlement features for withholding tax obligations is consistent with the approach clarified in the amendments. In addition, the Group has no cash-settled share-based payment transactions and had not made modifications to the terms and conditions of its share-based payment transaction where modification changed classification from cash settled to equity settled. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments did not have impact on the Group's consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, it will replace IFRS 4 Insurance Contracts that was issued in 2005. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. IFRS 17 is effective for reporting periods starting on or after 1 January 2022, with comparative figures required. Early application is permitted using either a full retrospective or a modified retrospective approach, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently evaluating the impact.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using modified retrospective approach, i.e. the Group will recognize cumulative catch-up adjustment on opening balance sheet without the restatement of prior period comparatives. At transition the Group will recognise a lease liability for leases previously classified as an operating lease applying IAS 17. Lease liability will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group will also recognise a right-of-use asset for such leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group applies the following practical expedients:

- The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Transition to IFRS 16 (continued)

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018

	31 December 2018
Property and equipment	83,758
Prepayment	(261)
Total assets	**83,497**
Lease liabilities	83,497
Total liabilities	**83,497**

Due to the adoption of IFRS 16, the Group's EBITDA will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IAS 23 Interpretation: Recognition of borrowing costs in arrangements to sell properties where the property is transferred over time

In March 2019, IFRS Interpretations Committee adopted the final agenda decision in relation to recognition of borrowing costs in arrangements to sell properties (units in a building) where the property is transferred over time under IFRS 15. According to the agenda decision, capitalization of borrowing costs under to cost of sold or unsold units would not be appropriate under IAS 23. As the result of new interpretation arising from the IFRS Interpretations Committee decision, the Company considers changing its existing accounting policy in relation to borrowing costs capitalization to cost of inventory property. The Group is currently estimating the effect of the expected change in accounting policy.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

- IFRS 3 Business Combinations

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

- IFRS 11 Joint Arrangements

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

  An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- IAS 12 Income Taxes

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

- IAS 23 Borrowing Costs

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Reclassifications

As at 31 December 2018 the Group changed the presentation of its consolidated income statement and aggregated all the revenue and cost of sales under two separate line items respectively.

The following reclassification was made to year ended 31 December 2017 consolidated income statement to conform to the year ended 31 December 2018 presentation requirements.

	*As previously reported**	*Reclassification*	*As Reclassified*
Utility and energy revenue	127,569	(127,569)	-
Cost of utility and energy	(39,198)	39,198	-
Gross utility and energy profit	**88,371**	**(88,371)**	**-**
Real estate revenue	121,862	(121,862)	-
Cost of real estate	(85,765)	85,765	-
Gross real estate profit	**36,097**	**(36,097)**	**-**
Net insurance premiums earned	102,329	(102,329)	-
Net insurance claims incurred	(60,251)	60,251	-
Gross insurance profit	**42,078**	**(42,078)**	**-**
Beverage revenue	55,441	(55,441)	-
Cost of beverage	(32,313)	32,313	-
Gross beverage profit	**23,128**	**(23,128)**	**-**
Healthcare and pharma revenue	691,971	(691,971)	-
Cost of healthcare and pharma services	(478,182)	478,182	-
Gross healthcare and pharma profit	**213,789**	**(213,789)**	**-**
Other income	27,998	(27,998)	-
Revenue	-	1,127,170	1,127,170
Cost of sales	-	(695,709)	(695,709)
Gross profit	**431,461**	**-**	**431,461**

** The numbers include Georgia Healthcare Group PLC, that was previously classified as disposal group held for sale as at 31 December 2017. Refer to note 6.*

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the management board use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

Infrastructure assets included in property and equipment are carried at fair value. For the years ended 31 December 2018 and 2017 the Group performed the analysis based on discounted cash flow method to ensure that the carrying value of infrastructure assets does not differ materially from their fair value.

The Group performs valuation of its investment properties and infrastructure assets included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in notes 13 and 14, while valuation inputs and techniques are presented in note 31. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Impairment of insurance premiums receivable, accounts receivable and other assets

The impairment provision for insurance premiums receivable, accounts receivable and other assets is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If the Group determines that objective evidence of impairment exists, the proper provision rate is applied. If the Group determines that no objective evidence of impairment exists, whether significant or not, it includes the trade and other receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Actual results may differ from the estimates.

The amount of allowance for impairment of the trade and other receivables as at 31 December 2018 was GEL 21,713 (31 December 2017: GEL 4,003). Refer to Note 27.

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2018 was GEL 8,285 (31 December 2017: GEL 4,243). Refer to Note 27.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. Refer to Note 18.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatization transaction.

4. Significant Accounting Judgements and Estimates (continued)

Ownership and recognition of infrastructure assets (continued)

Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these consolidated financial statements. However, based on the provisions of privatization agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognized infrastructure assets as the Group's property, plant and equipment.

Impairment of non-financial assets

The Group annually performs impairment testing for intangible assets with indefinite useful life, goodwill acquired in a business combination and any assets for which impairment indicators have been identified. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next four to five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in the note 15.

As at 31 December 2018, the Group performed impairment test for the assets of its beer business (cash generating unit or CGU), which plans to introduce several new beer brands in Georgia, commence local production of Heineken and rebrand existing lemonade production. The recoverable amount of the CGU was determined as its value in use based on a DCF model. The values assigned to the key assumptions represent management's assessment of the Company's future performance, competition analysis, macro-economic factors and trends in the beverages industry. The calculations use cash flow projections based on approved financial budgets covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated terminal growth rate.

The following table sets out the key assumptions for the beer CGU impairment test:

Assumption	**Value**
WACC	15.4%
Terminal growth rate	3.5%
Beer sales volume growth CAGR in four-year period	17.8%

Based on the above assumptions, assets of beer business are not impaired for the year ended 31 December 2018. The recoverable amount of GEL 100,145 almost equals the carrying amount of the CGU adjusted for working capital. Sensitivity analysis for changes in key assumptions (lower forecast volumes, lower terminal period growth rates or higher discount rates) was performed. Any adverse movement in key estimates might result in impairment of CGU.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions during the year ended 31 December 2018

Acquisition of Genuine Brewing Company

On 7 February 2018 the Group acquired 100% equity stake in a Georgian craft beer producer, Genuine Brewing Company LLC.

Net assets of Genuine Brewing Company LLC at acquisition date comprised GEL 5,609 Consideration comprised of GEL 7,835.

The fair values of aggregate identifiable assets and liabilities of Genuine Brewing Company LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	129
Accounts receivable[1]	214
Inventories	442
Property and equipment	5,297
Intangible assets	74
Other assets	1
	6,157
Accounts payable	195
Other liabilities	353
	548
Total identifiable net assets	**5,609**
Goodwill arising on business combination	2,226
Purchase consideration	**7,835**

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(7,835)
Cash acquired with the subsidiary	129
Net cash outflow	**(7,706)**

The Group decided to increase its presence in the beverage market by acquiring Genuine Brewing Company LLC. Management considers that the purchase will have a positive impact on the value of the Group's beverage business.

Since the acquisition, Genuine Brewing Company LLC has recorded GEL 1,967 and GEL 2,183 of revenue and loss, respectively. Group's profit and revenue would not have been materially different if the acquisition had taken place at the beginning of the year.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

[1] The fair value of the receivables amounted to GEL 214. The gross amount of receivables is GEL 214.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2018 (continued)

Kindzmarauli Marani LLC

On 26 April 2018 Georgia Capital acquired 60.5% of Kindzmarauli Marani LLC ("Kindzmarauli"), a producer of high quality Georgian wines and spirits, which owns 350 hectares of vineyards in Georgia's Kakheti region, from individual investors. The acquisition was carried out through locally established special purpose vehicle ("SPV"). The control over Kindzmarauli is obtained without having direct equity interest, through loan and management agreements signed with SPV, which provide Georgia Capital with the power, exposure to variability of returns and the ability to use the power to affect the returns of Kindzmarauli.

The fair values of aggregate identifiable assets and liabilities of Kindzmarauli as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	1,209
Accounts receivable[1]	1,899
Inventories	2,817
Property and equipment	26,299
Intangible assets	28
Prepayments	19
	32,272
Borrowings	14,560
Accounts payable	2,586
Deferred income	836
Other liabilities	82
	18,064
Total identifiable net assets	**14,208**
Non-controlling interests	(472)
Goodwill arising on business combination	3,136
Purchase consideration[2]	**17,816**

For the purposes of NCI calculation, net assets of Kindzmarauli are derived after deducting liability outstanding to Georgia Capital at acquisition date fair value.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2018 (continued)

Kindzmarauli Marani LLC (continued)

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(17,816)
Cash acquired with the subsidiary	1,209
Net cash outflow	**(16,607)**

The Group decided to obtain ownership over 350 hectares of vineyards and wine production facilities in Georgia's Kakheti region as a step towards Georgia Capital's goal of owning 1,000 hectares of vineyards through the acquisition of Kindzmarauli. Management considers that the acquisition will have a positive impact on the value of the Group.

Since the acquisition, Kindzmarauli has recorded GEL 6,698 and GEL 1,207 of revenue and loss, respectively. Group's profit and revenue would not have been materially different if the acquisition had taken place at the beginning of the year.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

In August 2018 Group acquired additional 39.5% ownership interest in Kindzmarauli as a result of which Group became 100% shareholder of the Company. Group paid GEL 5,667 (of which GEL 651 is holdback outstanding as at 31 December 2018) total consideration for the acquisition and recorded GEL 7,022 unrealised loss from acquisition of non-controlling interest in existing subsidiary.

[1] The fair value of the receivables amounted to GEL 1,899. The gross amount of receivables is GEL 1,899.
[2] Purchase consideration comprises of GEL 6,143 cash payment for acquisition of equity stake in the company and GEL 11,673 paid to acquire a loan to the acquiree from its previous controlling shareholder.

JSC Vabaco

On 27 September 2018 Group's healthcare subsidiary JSC Georgia Healthcare Group acquired 67% of JSC Vabaco ("Vabaco") shares from individual investors. JSC Vabaco is a software service company in Georgia.

The fair values of identifiable assets and liabilities of Vabaco as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	22
Property and equipment	20
Intangible assets	1,992
Other assets	20
	2,054
Accounts payable	157
Accruals for employee compensation	201
Other liabilities	132
	490
Total identifiable net assets	**1,564**
Non-controlling interests	516
Goodwill arising on business combination	-
Purchase consideration [1]	**1,048**

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2018 (continued)

JSC Vabaco (continued)

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(1,048)
Cash acquired with the subsidiary	22
Net cash outflow	**1,026**

By acquiring Vabaco the Group's healthcare subsidiary gets full access to software and the unique software specific values that the acquisition creates to the company. Management of GHG considers that the deal will have a positive impact on the value of the company.

Since acquisition, Vabaco has recorded GEL 61 and GEL 12 of revenue and profit respectively. For the year ended 31 December 2018 revenue and profit of the acquired entity were GEL 365 and GEL 42 respectively.

The Group has elected to measure the non-controlling interests in Vabaco at the non-controlling interests' proportionate share of Vabaco's identifiable net assets.

[1] Consideration comprised GEL 1,048, which has been fully paid as at reporting date.

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale

At 31 December 2017, given the expectation, in line with Georgia Capital's strategy, Group intended reduction to Georgia Healthcare Group ("GHG") stake to below 50% by the end of the year 2018. In line with IFRS 5 requirements, Georgia Capital classified GHG as a disposal group held for sale/discontinued operations in 2017 consolidated financial statements. The Group classified GHG's results of operations under "discontinued operations" line as a single amount in the consolidated income statement.

On 23 August 2018 Georgia Capital announced that it no longer expects to own less than 50% stake in GHG at the end of 2018. The Group concluded that current share price of GHG significantly undervalues its performance and it would not be in the best interests of the Group's shareholders to reduce ownership interest in GHG to below 50% during 2018 and consequently, JSC Georgia Capital shall continue to hold over 50% of GHG until such time as the Group considers it to be in the best interests of shareholders to do otherwise

As the sell down of GHG shares to below 50% within one year from classification as held for sale is no longer probable (i.e. the Board withdrew the plan to sell at current share price), investment in GHG stopped meeting IFRS 5 criteria for classification on 23 August, therefore Georgia Capital ceases to classify GHG as a disposal group held for sale in 2018 annual consolidated financial statements.

IFRS 5 requires that financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary.

The results of operations and cash flows of GHG have been included in results from continuing operations for all periods presented. Comparative consolidated income statement and consolidated statement of cash flows for the year 2017 have been re-presented accordingly. Comparative consolidated statement of financial position has not been represented; assets and liabilities of GHG continue to be presented separately as assets and liabilities of a disposal group held for sale as at 31 December 2017.

(Thousands of Georgian Lari)

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale (continued)

Below are re-presented income statement line items of the Group attributable to GHG for the year ended 2017:

	As previously reported	*Reclassification*	*As reclassified*
Healthcare and pharma revenue	-	691,971	691,971
Cost of healthcare and pharma services	-	(478,182)	(478,182)
Gross healthcare and pharma profit	**-**	**213,789**	**213,789**
Utility and energy revenue	127,569	-	127,569
Cost of utility and energy	(39,198)	-	(39,198)
Gross utility and energy profit	**88,371**	**-**	**88,371**
Real estate revenue	121,133	729	121,862
Cost of real estate	(85,765)	-	(85,765)
Gross real estate profit	**35,368**	**729**	**36,097**
Net insurance premiums earned	52,147	50,182	102,329
Net insurance claims incurred	(25,098)	(35,153)	(60,251)
Gross insurance profit	**27,049**	**15,029**	**42,078**
Beverage revenue	55,441	-	55,441
Cost of beverage	(32,313)	-	(32,313)
Gross beverage profit	**23,128**	**-**	**23,128**
Other income	7,622	20,376	27,998
Gross profit	**181,538**	**249,923**	**431,461**
Salaries and other employee benefits	(31,783)	(75,429)	(107,212)
Administrative expenses	(35,578)	(50,121)	(85,699)
Other operating expenses	(1,892)	(10,945)	(12,837)
Expected credit loss / impairment charge on financial assets	(2,475)	(3,696)	(6,171)
Impairment charge on insurance premium receivables, other assets and provisions	(942)	(479)	(1,421)
	(72,670)	**(140,670)**	**(213,340)**
EBITDA	**108,868**	**109,253**	**218,121**
Share in profit of associates	-	376	376
Depreciation and amortisation	(28,237)	(25,794)	(54,031)
Net foreign currency loss	(830)	(5,907)	(6,737)
Interest income	6,847	2,062	8,909
Interest expense	(33,397)	(27,506)	(60,903)
Net operating income before non-recurring items	**53,251**	**52,484**	**105,735**
Net non-recurring items	(551)	(4,779)	(5,330)
Profit before income tax expense from continuing operations	**52,700**	**47,705**	**100,405**
			-
Income tax expense	(5,749)	(387)	(6,136)
Profit for the year from continuing operations	**46,951**	**47,318**	**94,269**
Profit from discontinued operations*	47,318	(47,318)	-
Profit for the year	**94,269**	**-**	**94,269**

** The difference with profit from discontinued operations as previously reported is attributable to intra-group eliminations in the net gain amount of GEL 1,468 for the year ended 31 December 2017*

(Thousands of Georgian Lari)

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale (continued)

Assets and liabilities of disposal group held for sale as at 31 December 2017 are presented below:

	31 December 2017
Cash and cash equivalents	48,840
Amounts due from credit institutions	14,768
Investment securities	1,263
Accounts receivable	123,388
Insurance premiums receivable	21,257
Inventories	118,811
Prepayments	30,354
Income tax assets	2,026
Property and equipment	626,476
Goodwill	114,798
Intangible assets	28,466
Other assets	19,313
Total assets**	**1,149,760**
Accounts payable	97,321
Insurance contracts liabilities	20,953
Income tax liabilities	72
Borrowings	267,010
Debt securities issued	93,493
Other liabilities	140,552
Total liabilities**	**619,401**
Net assets disposed	**530,359**

*** The differences with assets and liabilities of disposal group held for sale presented in consolidated statement of financial position are attributable to intra-group eliminations in amount of GEL 1,176 and GEL 372 respectively.*

(Thousands of Georgian Lari)

7. Segment Information

At 31 December 2018 the Group changed the composition, measurement and presentation of its reportable segments. In line with IFRS 8 requirements, the change was applied retrospectively for comparable periods. The change primarily related to the presentation of segments based on the industries instead of legal entities and measurement based on segments' standalone performance prior to adjusting for intragroup transactions and balances instead of measurement after intragroup adjustments.

The table below summarizes the change in segment reporting:

Previously presented segment	New segment
GHG	• *Healthcare*
m^2	• *Housing Development* • *Hospitality and Commercial*
Aldagi	• *P&C Insurance*
GGU	• *Water Utility* • *Renewable Energy*
Teliani	• *Beverage*
	• *Corporate Center*

The Group believes that the revised composition and presentation of its reportable segments provides more relevant information to the financial statement users as it better aligns financial reporting with management's views of operations within the Group and decision-making about resource allocations.

For management purposes, the Group is organised into the following operating segments based on the industries as follows:

Healthcare	- Georgia Healthcare Group - principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals;
Housing Development	- Principally developing, constructing and selling residential apartments and providing land development services to third parties.
Hospitality and Commercial	- Developing and leasing rent-earning commercial assets and developing hotels across Georgia
Water Utility	- Principally supplying water and providing a wastewater service;
Renewable Energy	- Principally developing renewable energy power plants and supplying electricity
P&C Insurance	- Principally providing wide-scale property and casualty insurance services to corporate and individual clients.
Beverage	- Principally producing and distributing wine, beer and soft beverages.
Other	- Comprises of early stage businesses and feasibility costs incurred on pipeline projects.
Corporate Centre	-Comprising of JSC Georgia Capital

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated financial statements other than feasibility costs capitalized on pipeline projects, derecognition of interest accrued on loans issued to subsidiaries and foreign currency translation gain/(loss) incurred on preferred stocks owned.

Transactions between segments are accounted for at actual transaction prices.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during year ended 31 December 2018 and 2017.

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2018:

	Healthcare	*Water Utility*	*Housing development*	*P&C insurance*	*Renewable energy*	*Hospitality and Commercial*	*Beverage*	*Other*	*Corporate Center*	*Inter-Business Eliminations / Consolidations*	*Group Total*
Revenue	861,337	149,128	137,772	59,271	-	38,461	76,499	-	-	(39,602)	1,282,866
Cost of sales	(574,866)	(36,920)	(117,311)	(25,748)	-	(4,085)	(46,980)	-	-	9,719	(796,191)
Gross profit	**286,471**	**112,208**	**20,461**	**33,523**	**-**	**34,376**	**29,519**	**-**	**-**	**(29,883)**	**486,675**
Operating expenses and impairment	(154,448)	(29,427)	(11,583)	(15,453)	(789)	(2,841)	(35,734)	(1,395)	(15,223)	939	(265,954)
EBITDA	**132,023**	**82,781**	**8,878**	**18,070**	**(789)**	**31,535**	**(6,215)**	**(1,395)**	**(15,223)**	**(28,944)**	**220,721**
Profit from associates	247	-	-	-	-	-	-	-	-	-	247
Dividend income*	-	-	-	-	-	-	-	-	23,875	-	23,875
Depreciation and amortisation	(33,883)	(25,392)	(867)	(1,023)	(352)	(105)	(11,820)	-	(84)	(629)	(74,155)
Net foreign currency (loss) / gain	(4,175)	(4,970)	(487)	138	(401)	(1,084)	(1,864)	88	(23,009)	(1,894)	(37,658)
Interest income	1,139	568	320	3,539	149	197	132	-	39,549	(22,356)	23,237
Interest expense	(39,314)	(14,321)	(1,401)	-	-	(2,815)	(7,263)	(42)	(44,711)	18,248	(91,619)
Net operating income / (loss) before non-recurring items	**56,037**	**38,666**	**6,443**	**20,724**	**(1,393)**	**27,728**	**(27,030)**	**(1,349)**	**(19,603)**	**(35,575)**	**64,648**
Net non-recurring items	(2,186)	(6,121)	(6,224)	(652)	577	(1,333)	(1,886)	23	(11,684)	-	(29,486)
Profit / (loss) before income tax	**53,851**	**32,545**	**219**	**20,072**	**(816)**	**26,395**	**(28,916)**	**(1,326)**	**(31,287)**	**(35,575)**	**35,162**
Income tax expense	(616)	-	-	(2,990)	-	-	-	-	-	-	(3,606)
Profit / (loss) for the year	**53,235**	**32,545**	**219**	**17,082**	**(816)**	**26,395**	**(28,916)**	**(1,326)**	**(31,287)**	**(35,575)**	**31,556**
Revenue	**861,337**	**149,128**	**137,772**	**59,271**	**-**	**38,461**	**76,498**	**-**	**-**	**(39,601)**	**1,282,866**
Assets and liabilities											
Cash and cash equivalents	36,154	13,713	8,830	11,104	8,388	26,275	9,953	229	138,703	-	253,349
Amounts due from credit institutions	11,808	936	1,633	23,456	-	2,341	125	-	-	-	40,299
Debt investment securities	1,285	-	-	4,408	-	-	-	-	92,974	(26,843)	71,824
Equity investments at fair value	-	-	512	-	-	45	-	-	457,495	(557)	457,495
Total assets	**1,239,104**	**646,974**	**249,737**	**145,866**	**169,304**	**294,834**	**205,277**	**48,654**	**1,020,017**	**(301,593)**	**3,718,174**
Borrowings	296,817	290,266	59,312	-	70,711	113,933	118,147	38,095	-	(222,926)	764,355
Debt securities issued	93,573	29,980	67,697	-	-	19,609	-	-	732,519	(26,977)	916,401
Total liabilities	**665,490**	**376,488**	**182,952**	**89,632**	**75,144**	**134,994**	**149,107**	**42,721**	**734,843**	**(260,936)**	**2,190,435**
Total equity attributable to shareholders of the Group	**295,689**	**270,486**	**66,785**	**56,234**	**61,181**	**149,079**	**44,082**	**5,933**	**280,038**	**(30,773)**	**1,198,734**

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	Healthcare	*Water Utility*	*Housing development*	*P&C insurance*	*Renewable energy*	*Hospitality and Commercial*	*Beverage*	*Corporate Center*	*Inter-Business Eliminations / Consolidations*	*Group Total*
Revenue	763,443	135,099	116,577	54,815	(26)	4,732	55,687	-	(3,157)	1,127,170
Cost of sales	(514,337)	(39,198)	(85,208)	(25,098)	-	(556)	(32,314)	-	1,002	(695,709)
Gross profit	**249,106**	**95,901**	**31,369**	**29,717**	**(26)**	**4,176**	**23,373**	**-**	**(2,155)**	**431,461**
Operating expenses and impairment	(141,332)	(23,849)	(7,661)	(12,760)	(329)	(859)	(22,188)	(8,556)	4,194	(213,340)
EBITDA	**107,774**	**72,052**	**23,708**	**16,957**	**(355)**	**3,317**	**1,185**	**(8,556)**	**2,039**	**218,121**
Profit from associates	376	-	-	-	-	-	-	-	-	376
Net gains from disposal of investment businesses	-	-	-	-	-	-	-	90,275	(90,275)	-
Depreciation and amortisation	(25,795)	(20,116)	(490)	(855)	(216)	(18)	(6,541)	-	-	(54,031)
Net foreign currency (loss) / gain	(5,907)	(482)	40	208	(966)	-	(7,144)	7,514	-	(6,737)
Interest income	2,111	1,637	794	2,965	93	24	189	1,379	(283)	8,909
Interest expense	(27,543)	(13,483)	(364)	-	-	(185)	(3,345)	(16,266)	283	(60,903)
Net operating income / (loss) before non-recurring items	**51,016**	**39,608**	**23,688**	**19,275**	**(1,444)**	**3,138**	**(15,656)**	**74,346**	**(88,236)**	**105,735**
Net non-recurring items	(4,779)	(1,136)	(126)	-	14	(3)	700	-	-	(5,330)
Profit (loss) before income tax	**46,237**	**38,472**	**23,562**	**19,275**	**(1,430)**	**3,135**	**(14,956)**	**74,346**	**(88,236)**	**100,405**
Income tax expense	(387)	(934)	(1,508)	(2,975)	-	(47)	(285)	-	-	(6,136)
Profit / (loss) for the year	**45,850**	**37,538**	**22,054**	**16,300**	**(1,430)**	**3,088**	**(15,241)**	**74,346**	**(88,236)**	**94,269**
Revenue	**763,443**	**135,099**	**116,577**	**54,815**	**(26)**	**4,732**	**55,687**	**-**	**(3,157)**	**1,127,170**
Assets and liabilities										
Cash and cash equivalents	**-**	61,961	19,945	4,186	8,298	14,998	17,454	219,399	-	346,241
Amounts due from credit institutions	**-**	7,658	114	25,968	-	-	4,401	-	-	38,141
Debt investment securities	**-**	-	-	4,180	-	-	-	45,147	(17,420)	31,907
Equity investments at fair value		-	3,204	-	-	124	-	-	(2,175)	1,153
Total assets	**1,166,357**	**569,474**	**244,600**	**135,325**	**96,552**	**130,440**	**167,974**	**297,313**	**(91,687)**	**2,716,348**
Borrowings	**-**	217,405	44,244	-	64,848	39,000	71,430	272,279	(58,472)	650,734
Debt securities issued	-	30,009	65,925	-	-	-	-	-	(18,099)	77,835
Total liabilities	**619,398**	**301,551**	**168,991**	**86,473**	**69,920**	**41,880**	**92,813**	**273,506**	**(80,412)**	**1,574,120**
Total equity attributable to shareholders of the Group	**282,505**	**267,923**	**75,609**	**48,852**	**17,290**	**78,142**	**57,509**	**23,801**	**(6,968)**	**844,663**

**Net gains from disposal of investment business of corporate center comprises of gain from sale of GHG as accounted in JSC Georgia Capital's separate income statement, related increase in consolidated equity is presented as sale of interests in existing subsidiaries in consolidated statement of changes in equity.*

(Thousands of Georgian Lari)

8. Cash and Cash Equivalents

	31 December 2018	31 December 2017
Cash on hand	2,577	627
Current accounts with financial institutions	223,960	345,614
Time deposits with financial institutions with maturities of up to 90 days	26,813	-
Cash and cash equivalents, Gross	**253,350**	**346,241**
Allowance (Note 27)	(1)	-
Cash and cash equivalents, Net	**253,349**	**346,241**

9. Amounts Due from Credit Institutions

	31 December 2018	31 December 2017
Time deposits with maturities of more than 90 days	35,924	30,485
Deposits pledged as security for open commitments	4,375	7,656
Amounts due from credit institutions, Gross	**40,299**	**38,141**
Allowance (Note 27)	-	-
Amounts due from credit institutions, Net	**40,299**	**38,141**

10. Debt Securities Owned and Equity Investments at Fair Value

	31 December 2018	31 December 2017
Internationally listed debt securities	67,933	3,028
Locally listed debt securities	3,891	28,879
Debt securities owned	**71,824**	**31,907**

	31 December 2018	31 December 2017
Bank of Georgia Group PLC	457,495	-
Other	-	1,153
Equity investments at fair value	**457,495**	**1,153**

Equity investments at fair value include equity instruments designated at fair value through OCI representing 19.9% interest of Bank of Georgia Group PLC. This investment was irrevocably designated at fair value through OCI as the Group considers this investment to be strategic in nature, in addition, the Group does not hold the shares for the purpose of short-term capital appreciation. In 2018 the group recognized dividend income in the amount of GEL 23,875 from this investment.

(Thousands of Georgian Lari)

11. Accounts Receivable

	31 December 2018	*31 December 2017*
Healthcare services	115,150	-
Water supply services	23,965	20,396
Sales of pharmaceuticals	21,024	-
Beverage sales	18,235	14,497
Connection services	4,317	1,605
Electric power sales	700	1,267
Installation of water meters	94	220
Other receivables	8,456	1,355
Accounts receivable, Gross	**191,941**	**39,340**
Allowance (Note 27)	(21,713)	(4,003)
Accounts receivable, Net	**170,228**	**35,337**

Accounts receivable balance includes contract assets from sales to customers GEL 2,586 (2017: GEL1,008). For more details, please refer to note 25.

12. Inventories

	31 December 2018	*31 December 2017*
Healthcare and pharma inventory	146,164	-
Real estate inventory	99,364	58,830
Other inventory	33,087	21,280
Inventory	**278,615**	**80,110**

The Group performed inventory net realisable value test and charged impairment in the amount of GEL 179 (2017: GEL 323 was charged to profit or loss).

13. Investment Properties

	31 December 2018	*31 December 2017*
At 1 January	**159,989**	**134,990**
Additions*	27,626	17,199
Disposals	(2,461)	(402)
Net gains from revaluation of investment property	6,895	24,685
Transfers from / (to) property and equipment and other assets**	(48,971)	(19,590)
Currency translation differences	8,154	3,107
At 31 December	**151,232**	**159,989**

**** Non-cash additions comprised GEL 1,145 as at 31 December 2018 (2017: nil)***

***** Comprised of GEL 8,930 transfer to property and equipment (2017: transfers to property and equipment GEL 18,432), GEL 40,041 transfer to inventories (2017: transfer to other assets – inventories GEL 1,158).***

Investment properties are stated at fair value except for those investment properties under construction for which fair value is not reliably measurable (with carrying value of GEL 43,676 as at 31 December 2018 (2017: GEL 35,000)). Fair value represents the price that would be received in exchange for an asset in an arm's length transaction between market participants at the measurement date. As at 31 December 2018 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 31 for details on fair value measurements of investment properties.

The Group pledges some of its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2018 was GEL 1,132 (2017: 113,598).

(Thousands of Georgian Lari)

14. Property and Equipment

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings	*Hotels*	*Hospitals & clinics*	*Assets under construction*	*Infrastructure Assets*	*Factory and equipment*	*Computers & equipment*	*Other*	*Total*
Cost or revalued amount									
31 December 2017	**136,784**	**-**	**-**	**142,801**	**275,669**	**91,023**	**13,949**	**41,614**	**701,840**
Additions	10,213	2,991	22,209	274,458	12,206	5,726	62,174	20,659	410,636
Business combinations, Note 5	6,639	-	-	-	-	15,303	5,632	4,042	31,616
Disposals	(833)	-	-	(29)	(198)	(70)	(297)	(382)	(1,809)
Transfers	19,107	-	(6,624)	(153,774)	142,218	(10,866)	(1,170)	11,109	-
Transfers (to) / from investment properties	8,572	19,837	-	(19,840)	-	-	-	-	8,569
Transfer from assets of disposal group held for sale	14,939	-	417,574	325	-	-	198,315	37,297	668,450
Currency translation differences	9	1,532	-	4,601	-	-	63	300	6,505
At 31 December 2018	**195,653**	**24,360**	**433,159**	**248,770**	**429,895**	**101,116**	**278,838**	**114,639**	**1,826,430**
Accumulated impairment									
31 December 2017	**390**	**-**	**-**	**-**	**-**	**-**	**23**	**1**	**414**
Reversal	(15)	-	-	-	-	-	-	-	(15)
Disposals	-	-	-	-	-	-	-	(8)	(8)
Transfer from assets of disposal group held for sale	-	-	(4)	-	-	-	-	-	(4)
Transfers to investment properties	(271)	-	-	-	-	-	-	-	(271)
Currency translation differences	1	-	-	-	-	-	-	-	1
At 31 December 2018	**105**	**-**	**(4)**	**-**	**-**	**-**	**23**	**(7)**	**117**
Accumulated depreciation									
31 December 2017	**5,249**	**-**	**-**	**-**	**23,084**	**3,887**	**6,314**	**5,257**	**43,791**
Depreciation charge	1,460	162	5,192	-	20,426	7,490	23,674	10,684	69,088
Currency translation differences	(229)	-	-	-	64	47	191	29	102
Transfers	(70)	-	-	-	(5)	(613)	352	336	-
Transfers to investment properties	(90)	-	-	-	-	-	-	-	(90)
Transfer from assets of disposal group held for sale	327	-	5,561	-	-	-	29,771	6,316	41,975
Disposals	(184)	-	-	-	(73)	(6)	(178)	(29)	(470)
At 31 December 2018	**6,463**	**162**	**10,753**	**-**	**43,496**	**10,805**	**60,124**	**22,593**	**154,396**
Net book value:									
31 December 2017	**131,145**	**-**	**-**	**142,801**	**252,585**	**87,136**	**7,612**	**36,356**	**657,635**
At 31 December 2018	**189,085**	**24,198**	**422,410**	**248,770**	**386,399**	**90,311**	**218,691**	**92,053**	**1,671,917**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings	*Hospitals & Clinics*	*Assets under construction*	*Infrastructure Assets*	*Factory and equipment*	*Computers & equipment*	*Other*	*Total*
Cost or revalued amount								
31 December 2016	**137,313**	**388,803**	**86,905**	**199,304**	**-**	**160,086**	**43,670**	**1,016,081**
Additions	1,876	27,708	176,567	12,621	31,986	51,782	13,739	316,279
Business combinations	359	7,909	20,364	-	-	3,714	5,424	37,770
Disposals	(542)	(440)	(4,038)	(1,976)	(18)	(173)	(657)	(7,844)
Transfers	2,498	(456)	(141,903)	65,720	59,055	(1,515)	16,601	-
Transfers from / (to) investment properties	10,164	-	8,268	-	-	-	-	18,432
Transfers to other assets	-	-	(9)	-	-	-	-	(9)
Transfer to assets of disposal group held for sale	(14,939)	(423,524)	(325)	-	-	(198,774)	(37,298)	(674,860)
Write off	-	-	-	-	-	(1,321)	-	(1,321)
Currency translation differences	55	-	(3,028)	-	-	150	135	(2,688)
31 December 2017	**136,784**	**-**	**142,801**	**275,669**	**91,023**	**13,949**	**41,614**	**701,840**
Accumulated impairment								
31 December 2016	**417**	**-**	**-**	**-**	**-**	**-**	**1**	**418**
Currency translation differences	(27)	-	-	-	-	23	-	(4)
31 December 2017	**390**	**-**	**-**	**-**	**-**	**23**	**1**	**414**
Accumulated depreciation								
31 December 2016	**3,858**	**8,554**	**-**	**5,738**	**-**	**19,157**	**5,631**	**42,938**
Depreciation charge	1,340	3,700	-	16,507	4,171	18,178	6,099	49,995
Currency translation differences	391	-	-	999	(284)	(1,071)	83	118
Transfer to assets of disposal group held for sale	(327)	(11,970)	-	-	-	(29,771)	(6,316)	(48,384)
Disposals	(13)	(284)	-	(160)	-	(179)	(240)	(876)
31 December 2017	**5,249**	**-**	**-**	**23,084**	**3,887**	**6,314**	**5,257**	**43,791**
Net book value:								
31 December 2016	**133,038**	**380,249**	**86,905**	**193,566**	**-**	**140,929**	**38,038**	**972,725**
31 December 2017	**131,145**	**-**	**142,801**	**252,585**	**87,136**	**7,612**	**36,356**	**657,635**

The Group assessed that carrying value of infrastructure assets approximates their fair value as at 31 December 2018 and 2017.

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property as at 31 December 2018 was GEL 662,034 (31 December 2017: GEL 93,818, excluding that of disposal group held for sale).

(Thousands of Georgian Lari)

15. Goodwill and Intangible Assets

Movements in goodwill during the years ended 31 December 2018 and 31 December 2017, were as follows:

	31 December 2018	*31 December 2017*
Cost		
1 January	**26,627**	**78,335**
Business combinations	5,362	60,138
Transfer from/to assets of disposal group held for sale	114,798	(111,846)
At 31 December	**146,787**	**26,627**
Accumulated impairment		
1 January	**4,692**	**4,692**
At 31 December	**4,692**	**4,692**
Net book value:		
1 January	**21,935**	**73,643**
At 31 December	**142,095**	**21,935**

Impairment test for goodwill

Goodwill acquired through business combinations have been allocated to five individual cash-generating units, for impairment testing: Property & Casualty Insurance, Beverage, Pharmacy, Healthcare and Health Insurance.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	31 December 2018	*31 December 2017*
P&C Insurance	15,454	15,454
Beverage	11,843	6,481
Pharmacy	77,755	-
Healthcare	33,581	-
Health Insurance	3,462	-
Total	**142,095**	**21,935**

The recoverable amount of the healthcare services operating segment exceeds its carrying amount by GEL253,595 using the discount rate of 12.7%. The discount rate that brings value in use of healthcare services segment equal to its carrying value is 15.21%.

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following rates were used by the Group for P&C Insurance, Beverage, Pharmacy, Healthcare and Health Insurance:

(Thousands of Georgian Lari)

15. Goodwill and Intangible Assets (continued)

Key assumptions used in value in use calculations (continued)

	P&C Insurance		*Beverage*		*Pharmacy*		*Healthcare*		*Health Insurance*	
	2018, %	*2017, %*	*2018, %*	*2017, %*	*2018, %*	*2017, %*	*2018, %*	*2017, %*	*2018, %*	*2017, %*
Discount rate	15.6%	9.0%	15.3%	12.8%	14.4%	15.2%	12.7%	15.1%	14.3%	16.1%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

For the Healthcare CGU, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2018. Possible change was taken as +/-1% in discount rate and growth rate.

Increase in intangible assets during 2018 is mostly attributable to reclassifications from assets held for sale (Note 6) and acquisitions of intangible assets presented in the consolidated statement of cash flows.

16. Other Assets and Liabilities

Other assets comprise:

	31 December 2018	*31 December 2017*
Loans issued*	150,300	101
Operating tax assets	38,028	29,769
Pension fund assets**	18,796	18,536
Reinsurance assets	18,240	20,671
Call option	16,969	-
Investments in associates	3,124	-
Operating lease receivable	742	-
Other derivative financial assets	661	-
Other	4,602	793
Other assets	**251,462**	**69,870**

**Loans issued mainly consist of a loan granted to the former parent JSC BGEO Group and a loan granted to m2 joint venture. For more details, please refer to note 33.*

(Thousands of Georgian Lari)

16. Other Assets and Liabilities (continued)

Other liabilities comprise:

	31 December 2018	*31 December 2017*
Amounts payable for share acquisitions*	92,126	413
Accruals	55,623	17,133
Other taxes payable	22,701	11,058
Other insurance liabilities	19,707	11,008
Pension fund liabilities**	18,932	18,536
Finance lease liability	8,746	-
Dividends payable to non-controlling shareholders	991	-
Derivative financial liabilities	715	-
Provisions	525	3,103
Other	15,114	1,955
Other liabilities	**235,180**	**63,206**

**2018 amount payable for share acquisitions comprise payables for healthcare and wine business acquisitions.*

***Pension fund operated by Group's insurance subsidiary is mostly for third party customers and does not represent a defined benefit plan.*

17. Taxation

The corporate income tax (expense) credit comprises:

	2018	*2017 (Represented)*
Current income expense	(3,924)	(5,624)
Deferred income tax credit (expense)	318	(512)
Income tax (expense) credit	**(3,606)**	**(6,136)**
Deferred income tax credit (expense) in other comprehensive income (loss)	**-**	**165**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2018 and 2017 was as follows:

	2018	*2017 (Represented)*
Currency translation differences	-	165
Income tax credit (expense) in other comprehensive income	**-**	**165**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which is 15% 2018 (2017: 15%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2023). Under the new taxation regime, corporate income tax is paid on distributed, rather than earned profits. As the result, no deferred tax is recognized for the Group's entities operating under the new taxation regime as the applicable rate for undistributed profit is nil. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities. During the transitional period, between 1 January 2017 and 1 January 2023, no tax is payable on distributed profits from financial to non-financial businesses.

(Thousands of Georgian Lari)

17. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2018 and 31 December 2017 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2018	*2017 (Represented)*
Profit before income tax expense	**35,162**	**100,405**
Average tax rate	15%	15%
Theoretical income tax expense at average tax rate	**(5,274)**	**(15,061)**
Non-taxable income	1,756	9,817
Correction of prior year declarations	(20)	-
Non-deductible expenses	-	(84)
Tax at the domestic rates applicable to profits in each country	-	(808)
Unrecognised deferred tax asset	(68)	-
Income tax (expense) benefit	**(3,606)**	**(6,136)**

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2018 and 31 December 2017 income tax assets and liabilities consist of the following:

	31 December 2018	*31 December 2017*
Current income tax assets	1,078	365
Deferred income tax assets	1,327	1,009
Income tax assets	**2,405**	**1,374**
Current income tax liabilities	1,119	860
Income tax liabilities	**1,119**	**860**

Deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	*31 December 2017*
Tax effect of deductible temporary differences:		
Tax credits carried forward	21,048	-
Investment properties	-	3
Insurance premiums receivables	688	487
Other assets and liabilities	639	556
Deferred tax assets	**22,375**	**1,046**
Tax effect of taxable temporary differences:		
Investments in subsidiaries	21,048	-
Other assets and liabilities	-	37
Deferred tax liabilities	**21,048**	**37**
Net deferred tax asset recognized in consolidated statement of financial position	**1,327**	**1,009**

(Thousands of Georgian Lari)

18. Insurance Contract Liabilities and Reinsurance Assets

	2018			*2017*		
	Insurance contract liabilities	***Reinsurance assets***	***Net***	***Insurance contract liabilities***	***Reinsurance assets***	***Net***
	2018	***2018***	***2018***	***2017***	***2017***	***2017***
At 1 January	**46,403**	**(20,671)**	**25,732**	**67,871**	**(13,161)**	**54,710**
Premiums written during the year	135,595	(29,252)	106,343	124,628	(23,995)	100,633
Premiums earned during the year	(133,965)	27,235	(106,730)	(125,267)	22,938	(102,329)
Claims incurred during the year	65,728	(7,195)	58,533	75,806	(15,555)	60,251
Claims paid during the year	(66,507)	11,643	(54,864)	(75,682)	9,102	(66,580)
Transfer from/to assets and liabilities of disposal group held for sale	20,953	-	20,953	(20,953)	-	(20,953)
At 31 December	**68,207**	**(18,240)**	**49,967**	**46,403**	**(20,671)**	**25,732**

19. Borrowings

Borrowings comprise:

	31 December 2018	***31 December 2017***
Borrowings from local financial institutions	306,340	42,512
Borrowings from international financial institutions	451,984	335,943
Other borrowings*	6,031	272,279
Borrowings	**764,355**	**650,734**

** Other borrowings as at 31 December 2017 comprised of borrowing from JSC BGEO Group.*

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants"). At 31 December 2018 and 31 December 2017 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

As at 31 December 2018, borrowings from local financial institutions are denominated in GEL, EUR and USD (2017: GEL, EUR, USD), carry interest rates from 5% to 12% (2017: from 7% to 12.25%), with average remaining terms of maturity of 4 years (2017: 5 years).

As at 31 December 2018, borrowings from international financial institutions are denominated in GEL, EUR and USD (2017: GEL, EUR, USD), carry interest rates from 1.63% to 12.25% (2017: from 1.63% to 12.25%), with average remaining terms of maturity of 8 years (2017: 10 years).

As at 31 December 2018, other borrowings are denominated in GEL and EUR (2017: GEL and USD), carry interest rated from 12% to 13% (2017: from 8% to 11.25%), with average remaining terms of maturity of 3 months (2017: 6 months).

During 2018 total amount of interest paid comprised GEL 96,312 (2017: 71,036)

Material non-cash transactions

In 2018 year the Group incurred borrowings costs with total amount GEL 27,201 (2017: 16,531) of which GEL 6,018 (2017: GEL 2,206) has been capitalized as a part of investment property, GEL 5,538 (2017: GEL 6,723) was capitalized as a part of inventory property, GEL 15,450 was capitalized as part of property and equipment (2017: 7,602) and GEL 195 was capitalized as part of intangible assets (2017: nil).

(Thousands of Georgian Lari)

19. Borrowings (continued)

Changes in liabilities arising from financing activities

	Borrowings	Debt securities
Carrying amount at 31 December 2017	**650,734**	**77,835**
Foreign currency translation	(7,335)	63,497
Cash proceeds	247,574	747,184
Cash repayments	(393,981)	(80,747)
Transfer from/to liabilities of disposal group held for sale	267,010	93,493
Acquisition of subsidiaries	14,560	-
Other	(14,207)	15,139
Carrying amount at 31 December 2018	**764,355**	**916,401**

20. Debt Securities Issued

Debt securities issued comprise:

	31 December 2018	*31 December 2017*
USD denominated Eurobonds issued by Georgia Capital	732,519	-
USD denominated local bonds issued by m2	85,663	64,445
GEL denominated local bonds issued by GHG	84,858	-
GEL denominated local bonds issued by GGU	13,361	13,390
Debt securities issued	**916,401**	**77,835**

In March 2018 JSC Georgia Capital issued a USD 300 million (GEL 734 million) 6.125% notes due in March 2024 denominated in US Dollars which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market (the "Notes"). Notes were sold at the price of 98.770% of par value at the initial offering.

21. Deferred Income

	31 December 2018	*31 December 2017*
Advances received for connection services	27,249	21,202
Advances received for sale of apartments	19,560	46,195
Advances received for sale of pharmaceuticals	4,867	-
Other	10,383	5,669
Deferred income	**62,059**	**73,066**

(Thousands of Georgian Lari)

22. Accounts Payable

	31 December 2018	31 December 2017
Trade payables	139,879	42,004
Other payables	3,235	983
	143,114	**42,987**

Most of trade payables represent amounts due to suppliers in healthcare, water utility, housing development, commercial and beverage segments. Trade payables are usually short-term, denominated mostly in GEL and USD and do not carry interest.

23. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and its subsidiaries are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

As at 31 December 2018, Georgia Healthcare Group PLC, the Group's subsidiary operating in healthcare segment, had litigation with Social Service Agency ("SSA") in relation to an aggregate amount of GEL 6,888 (31 December 2017: GEL 6,631). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Commitments and contingencies

As at 31 December 2018 and 31 December 2017 the Group's commitments and contingencies comprised the following:

	31 December 2018	31 December 2017
Operating lease commitments		
Not later than 1 year	23,383	4,313
Later than 1 year but not later than 5 years	75,147	6,998
Later than 5 years	31,410	1,691
	129,940	**13,002**
Capital expenditure commitments	**10,341**	**-**
Total commitments	**140,281**	**9,899**

Capital expenditure commitments represent the commitment for purchase of property and capital repairs GEL 9,624 (2017: nil) and software and other intangible assets GEL 717 (2017: nil).

(Thousands of Georgian Lari)

24. Equity

Share capital

As at 31 December 2018 issued share capital comprised 11,526,000 authorised common shares (31 December 2017: 10,000,000), of which 11,526,000 were fully paid (2017: 10,000,000). Each share has a nominal value of one Georgian Lari. Shares issued and outstanding as at 31 December 2018 are described below:

	Number of shares Ordinary	*Amount*
31 December 2016	**8,481,719**	**8,482**
Issue of share capital*	1,518,281	1,518
31 December 2017	**10,000,000**	**10,000**
Issue of share capital	1,526,000	1,526
31 December 2018	**11,526,000**	**11,526**

Treasury Shares

Treasury shares consist of GEL 532 JSC Georgia Capital shares and GEL 52 shares of Georgia Capital PLC (the parent). In 2018, shares of JSC Georgia Capital were purchased from the parent for consideration of GEL 64,468. In 2018, shares of Georgia Capital PLC repurchased for consideration of GEL 63,648 for the purpose of management compensation scheme settlement.

Dividends

Shareholders are entitled to dividends in Georgian Lari.

In April 2017, JSC Insurance Company Aldagi declared interim dividends. Payment of the total GEL 7,000 interim dividend was received by shareholders of the Group on 4 April 2017. Dividend distribution by JSC Insurance Company Aldagi was treated as a distribution of the Group.

Nature and purpose of other reserves

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Unrealised gains (losses) on debt and equity investments at fair value
This reserve records fair value changes on debt and equity investments at fair value through other comprehensive income.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements in other reserves during the year ended 31 December 2018 and 31 December 2017 are presented in the statements of other comprehensive income.

On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC Bank of Georgia Financial Group were transferred to Georgia Capital as an equity contribution from JSC BGEO Group in exchange for 1,516,000 (GEL 1,516) shares issued. In line with IFRS 9 requirements, Georgia Capital initially recognized financial asset (investment in equity instruments) at fair value of GEL 706,000 with corresponding increase in equity. On 29 May 2018, as a part of BGEO Group's demerger, 19.9% interest in Banking Business was exchanged for 19.9% stake in Bank of Georgia Group PLC at fair value of GEL 599,406 (calculated using LSE share price).

Upon initial recognition, management irrevocably designated 19.9% equity interest in Banking Business and Bank of Georgia Group PLC at fair value through other comprehensive income (FVOCI). As a result, the difference between initially recorded fair value of GEL 706,000 and fair value of 19.9% stake at 31 December 2018 (GEL 457,495) in the amount of GEL 248,505 has been recognized in other comprehensive income. Subsequently, all changes in fair value of 19.9% equity stake will be recorded through other comprehensive income (OCI) and never reclassified to PL, not even upon disposal of the stake.

(Thousands of Georgian Lari)

24. Equity (continued)

Non-controlling interest

Georgia Healthcare Group PLC ("GHG") is the only significant subsidiary of the Group that has a material non-controlling interest of 43% as of 31 December 2018 (31 December 2017 43%). The following table summarises key information before intragroup eliminations relevant to Georgia Healthcare Group PLC.

	2018	*2017*
Total assets	1,222,503	1,149,760
Total liabilities	665,487	619,401
Non-controlling interest	287,016	270,830
Revenue	861,337	763,443
Profit for the year	53,237	45,817
Total comprehensive income for the year	53,237	45,817
Net increase in cash and cash equivalents	12,687	25,602
Profit attributable to non-controlling interest	33,142	27,955

25. Gross Profit

	2018	*2017*
Healthcare revenue	291,069	253,612
Pharma revenue	501,090	438,359
Utility and energy revenue	139,290	127,569
Real estate revenue	142,018	121,862
Net insurance premiums earned	106,730	102,329
Beverage revenue	76,358	55,441
Other income	26,311	27,998
Revenue	**1,282,866**	**1,127,170**
Cost of utility and energy	(36,274)	(39,198)
Cost of real estate	(113,900)	(85,765)
Net insurance claims incurred	(58,533)	(60,251)
Cost of healthcare	(154,452)	(138,723)
Cost of pharma services	(386,153)	(339,459)
Cost of beverage	(46,879)	(32,313)
Cost of sales	**(796,191)**	**(695,709)**
Gross profit	**486,675**	**431,461**

(Thousands of Georgian Lari)

25. Gross Profit (continued)

Gross Healthcare and Pharma Profit

	2018	*2017*
Revenue from government programmes	200,652	176,908
Revenue from free flow (non-insured retail individuals)	78,500	64,748
Revenue from insurance companies	11,917	11,956
Healthcare revenue	**291,069**	**253,612**
Retail	378,398	329,733
Wholesale	122,692	108,626
Pharma revenue	**501,090**	**438,359**
Healthcare and pharma revenue	**792,159**	**691,971**
Direct salary expenses	(105,440)	(92,744)
Healthcare direct materials	(34,012)	(34,015)
Expenses on medical service providers	(3,226)	(1,854)
Other direct expenses	(11,774)	(10,110)
Cost of healthcare	**(154,452)**	**(138,723)**
Retail	(275,887)	(246,310)
Wholesale	(110,266)	(93,149)
Cost of pharma services	**(386,153)**	**(339,459)**
Cost of healthcare and pharma services	**(540,605)**	**(478,182)**
Gross healthcare and pharma profit	**251,554**	**213,789**

Gross Utility and Energy Profit

	2018	*2017*
Revenue from water supply	130,238	117,814
Revenue from electric power sales	9,052	9,755
Utility and energy revenue	**139,290**	**127,569**
Cost of water supply	(33,663)	(36,886)
Cost of electric power sales	(2,611)	(2,312)
Cost of utility and energy	**(36,274)**	**(39,198)**
Gross utility and energy profit	**103,016**	**88,371**

(Thousands of Georgian Lari)

25. Gross Profit (continued)

Gross Real Estate Profit

	2018	*2017*
Revenue from apartment sale	95,923	94,179
Revaluation of m^2 investment property	6,626	24,033
Income from operating leases	6,454	3,650
Revenue from hospitality services	5,151	-
Revenue from construction services	27,864	-
Real estate revenue	**142,018**	**121,862**
Cost of apartments sold	(86,269)	(85,208)
Cost of operating leases	(879)	(557)
Cost of hospitality services	(3,115)	-
Cost of construction services	(23,637)	-
Cost of real estate	**(113,900)**	**(85,765)**
Gross real estate profit	**28,118**	**36,097**

Gross Insurance Profit

	2018	*2017*
Gross health insurance premiums earned	54,040	50,182
Gross P&C insurance premiums earned	79,925	75,085
Total gross premiums earned on insurance contracts	133,965	125,267
Reinsurers' share of gross earned premiums on health insurance contracts	(3,020)	-
Reinsurers' share of gross earned premiums on P&C insurance contracts	(24,215)	(22,938)
Reinsurers' share of gross earned premiums on insurance contracts	(27,235)	(22,938)
Net insurance premiums earned	**106,730**	**102,329**
Gross health insurance claims incurred	(37,096)	(35,153)
Gross P&C insurance claims incurred	(28,632)	(40,653)
Gross insurance claims incurred	(65,728)	(75,806)
Reinsurers' share of gross health insurance claims incurred	4,311	-
Reinsurers' share of gross P&C insurance claims incurred	2,884	15,555
Reinsurers' share of gross insurance claims incurred	7,195	15,555
Net insurance claims incurred	**(58,533)**	**(60,251)**
Gross insurance profit	**48,197**	**42,078**

(Thousands of Georgian Lari)

25. Gross Profit (continued)

Gross Beverage Profit

	2018	*2017*
Revenue from wine sales	27,020	22,156
Revenue from beer sales	27,395	16,406
Revenue from distribution of imported goods	14,065	12,910
Change in net realizable value of agricultural produce after harvest	2,875	253
Other beverage revenue	5,003	3,716
Beverage revenue	**76,358**	**55,441**
Cost of wine	(15,188)	(10,557)
Cost of beer	(17,848)	(8,676)
Cost of distribution	(10,625)	(10,814)
Cost of other beverage revenue	(3,218)	(2,266)
Cost of beverage	**(46,879)**	**(32,313)**
Gross beverage profit	**29,479**	**23,128**

Total revenue above includes the following revenue streams that are not in scope of IFRS 15 Revenue from Contracts with customers:

	2018	*2017*
Real estate revenue:		
Revaluation of m2 investment property	6,626	24,033
Income from operating leases	6,454	3,650
	13,080	**27,683**
Beverage revenue:		
Change in net realizable value of agricultural produce after harvest	2,875	253
	2,875	**253**
Net insurance premiums earned	**106,730**	**102,329**
Other income		
Gain from call option	6,863	10,106
Payables derecognised	3,881	-
Litigation reserve reversal	817	-
Loss from sale of PPE and IP	262	-
Net gains (losses) from revaluation of investment property	269	652
Gain from lease derecognition	-	2,702
Gain from rent liability derecognition	-	514
Revenue from realized stationery	-	301
	134,777	**144,540**

Salary and employee benefit expenses included in cost of sales comprised GEL 124,333 (2017: GEL 105,709). Inventory recognised as an expense during the period comprised GEL 185,512 (2017: GEL 153,100)

(Thousands of Georgian Lari)

25. Gross Profit (continued)

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	2018	2017
Deferred income	47,330	71,322
Accounts receivable* (i)	134,815	116,669
Contract assets**	2,586	1,008

** includes GEL 82,169 as at 31 December 2017 presented in disposal group held for sale.*
*** Contract assets relate to our conditional right to consideration for our completed performance under the contract. Contract assets are included within Accounts receivable line in consolidated statement of financial position.*

Accounts receivable are recognized when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as the Group performs under the contract.

Decrease in deferred revenue is mainly attributable to housing development segment, two residential projects which accounted for the large portion of deferred income as at 31 December 2017, were almost completed as at 31 December 2018, thus such contract liabilities were recognized in revenue in the current reporting period.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 54,935 revenue in the current reporting period (2017: GEL 51,273) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2019	In the year ending 31 December 2020	In the year ending 31 December 2021	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers	32,452	6,622	4,457	6,121	6,325	**55,977**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

(Thousands of Georgian Lari)

25. Gross Profit (continued)

Operating lease commitments – Group as a lessor:

The Group's future minimum lease payments receivable under non-cancellable operating leases amounted to:

	31 December 2018	*31 December 2017*
Not later than 1 year	5,243	4,616
Later than 1 year but not later than 5 years	11,531	11,088
Later than 5 years	9,090	9,663
Total	**25,864**	**25,367**

Most of the Company's leases are prices in USD and have lease term varying from 3 moths to 10 years (average term: 4 years).

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2018	*2017 (Represented)*
Salaries and bonuses	(120,570)	(95,435)
Equity compensation plan costs	(14,341)	(10,751)
Pension costs	(913)	(1,026)
Salaries and other employee benefits	**(135,824)**	**(107,212)**

General and administrative expenses

	2018	*2017 (Represented)*
Occupancy and rent	(23,115)	(22,186)
Marketing and advertising	(17,278)	(16,970)
Legal and other professional services	(12,544)	(8,638)
Operating taxes	(10,275)	(7,649)
Office supplies	(7,800)	(6,063)
Repair and maintenance	(4,974)	(4,408)
Utility expenses	(3,824)	(2,337)
Communication	(2,842)	(2,429)
Banking services	(2,835)	(2,430)
Corporate hospitality and entertainment	(2,576)	(2,308)
Travel expenses	(2,430)	(1,830)
Personnel training and recruitment	(1,829)	(557)
Customer service fee	(1,710)	(1,735)
Security	(1,348)	(1,164)
Other	(10,360)	(4,995)
General and administrative expenses	**(105,740)**	**(85,699)**

(Thousands of Georgian Lari)

26. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Auditor's remuneration

Remuneration of the Group's auditors is included within legal and other professional services expenses above and for the years ended 31 December 2018 and 2017 comprises (net of VAT):

Auditor's remuneration	***2018***	***2017***
Fees for the audit of the Group's annual financial statements for the year ended 31 December	37	36
Expenditures for other assurance services, including statutory audit of subsidiaries	2,709	2,570
Expenditures for other professional services	951	54
	3,698	**2,660**

The figures shown in the above table relate to fees paid to EY LLC and its associates. Fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were nil (2017: nil) and in respect of other services of the Group were GEL 131 (2017: nil), net of VAT.

Fees for other professional services mostly include fees related to corporate finance services that are presented in non-recurring expenses. Refer to note 28.

27. Impairment of insurance premiums receivable, accounts receivable, other assets and provisions

The movements in the allowance for insurance premiums receivables and other receivables are as follows:

	Insurance premiums receivable 2018	***Other assets 2018***	***Provisions 2018***	***Total 2018***
At 1 January	**4,243**	**22**	**3,103**	**7,368**
Charge	1,898	464	231	2,593
Transfer from assets of disposal group held for sale	1,787	-	-	1,787
Recoveries	242	-	(1,302)	(1,060)
Reversal	-	-	(1,353)	(1,353)
Write-offs	8	(72)	(154)	(218)
Currency translation differences	107	-	-	107
At 31 December	**8,285**	**414**	**525**	**9,224**

(Thousands of Georgian Lari)

27. Impairment of insurance premiums receivable, accounts receivable, other assets and provisions (continued)

The movements in the allowance for financial assets according to IFRS 9 are as follows:

	Cash and cash equivalents 2018	*Amounts due from credit institutions 2018*	*Debt securities owned 2018*	*Accounts receivable 2018*	*Total 2018*
At 31 December	**-**	**-**	**-**	**4,003**	**4,003**
IFRS 9 Effect	2	-	192	13,830	14,024
At 1 January	**2**	**-**	**192**	**17,833**	**18,027**
(Reversal) Charge	(1)	-	117	10,080	10,196
Write-offs	-	-	-	(9,479)	(9,479)
Transfer from assets of disposal group held for sale	-	-	-	3,415	3,415
Currency translation difference	-	-	-	(136)	(136)
At 31 December	**1**	**-**	**309**	**21,713**	**22,023**

For contract assets and accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. For other debt financial assets, the ECL is based on the 12-month ECL since there has not been a significant increase in credit risk since origination.

The movements in the allowance for insurance premiums receivables and accounts receivables other receivables for the year ended 31 December 2017 are as follows:

	Insurance premiums receivable 2017	*Accounts receivable 2017*	*Other assets 2017*	*Provisions 2017*	*Total 2017*
At 1 January	**8,762**	**2,292**	**-**	**706**	**11,760**
Charge	1,110	6,171	311	2,686	10,278
Transfer to assets of disposal group held for sale	(1,787)	(3,415)	-	-	(5,202)
Utilised	-	-	-	(289)	(289)
Write-offs	(3,227)	(1,211)	-	-	(4,438)
Currency translation differences	(615)	166	(289)	-	(738)
At 31 December	**4,243**	**4,003**	**22**	**3,103**	**11,371**

Increase in impairment charge in 2018 is mainly attributable to the increased gross balance of receivables of healthcare and utility businesses.

(Thousands of Georgian Lari)

28. Net Non-recurring Items

Net non-recurring expense for the year ended 31 December 2018 comprised:

	2018
Share based payment acceleration effect	(20,303)
College construction	(2,422)
Reorganization costs	(2,070)
Loan prepayment fee and derecognition losses	(1,325)
Demerger fees	(1,080)
Charity expenses	(783)
Other	(1,503)
Net non-recurring items	**(29,486)**

Net non-recurring expense for the year ended 31 December 2017 comprised:

	2017 (Represented)
Loss from loan write-off	(1,940)
Loss from one-off dismissal compensations to employees	(1,577)
Other	(1,813)
Total	**(5,330)**

For executive managers who continued employment in Georgia Capital, service contracts with Bank of Georgia or BGEO were terminated and new contracts were entered into with Georgia Capital after demerger. All outstanding unvested share awards under old service agreements were converted into 1 Georgia Capital PLC share vesting according to original schedule and 1 BOG PLC share vesting immediately per each BGEO share. The related share-based payment expense that has not been recognized in income statement as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed.

(Thousands of Georgian Lari)

29. Share-based Payments

Executives' Equity Compensation Plan

Prior to demerger, senior executives of BGEO Group, providing services to Georgia Capital, were compensated with shares of BGEO. Upon demerger, old service contracts with BGEO were terminated and new contracts were signed with Georgia Capital. Any share-based payment expense related to BGEO's share plan was accelerated and recognized in income statement as of the termination date of service agreements as non-recurring expense, for more details refer to note 28.

In 2018, Georgia Capital introduced Group's Executives' Equity Compensation Plan ("EECP"). Under the EECP, shares of the parent are granted to senior executives of the parent and subsidiaries. In July 2018, the executives signed new five-year fixed contingent share-based compensation agreements with a total of 1,730,000 ordinary shares of Georgia Capital PLC. The total amount of shares fixed to each executive will be awarded in five equal instalments during the five consecutive years starting January 2019, of which each award will be subject to a six-year vesting period subject to continued employment within the Group during such vesting period. The fair value of the shares is determined at the grant date using available market quotations.

In 2018 the Group set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). In 2018 the Trustee has repurchased 1,191,127 shares.

There were no cancellations or modifications to the awards in 2018 or 2017 except for BGEO share awards described above.

In addition to Executives' Equity Compensation Plan, the Group grants shares of the parent to the employees of the Group.

The following table illustrates the number and weighted average prices of, and movements in, shares awards during the year:

	2018	2017
Shares outstanding at 1 January	-	-
Granted during the year	2,294,556	-
Forfeited during the year	-	-
Vested during the year	-	-
Shares outstanding at 31 December	**2,294,556**	**-**

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 5.4 years. The weighted average fair value of shares granted during the year was GEL 33.4.

GHG's senior executive plan:

In 2015, the executives signed five-year fixed contingent share-based compensation agreements with a total of 1,670,000 ordinary shares of GHG. The total amount of shares fixed to each executive will be awarded in five equal instalments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period subject to continued employment within the Group during such vesting period. In addition to the above award, executives are awarded discretionary number of GHG shares with a three-year vesting period, with continuous employment being the only vesting condition.

The following table illustrates the number and weighted average prices of, and movements in, shares awards during the year:

(Thousands of Georgian Lari)

29. Share-based Payments (continued)

	2018	2017
Shares outstanding at 1 January	**1,427,175**	**988,968**
Granted during the year	826,529	816,641
Forfeited during the year	(14,213)	(26,901)
Vested during the year	(579,215)	(351,534)
Shares outstanding at 31 December	**1,660,276**	**1,427,175**

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 1.89 years. The weighted average fair value of shares granted during the year was GEL 12.54.

Expense recognition:

The expense recognised for employee services received during the year and the respective increase in equity arising from equity-settled share-based payments is shown in the following table:

	2018	*2017*
Increase in equity arising from equity-settled share-based payments	38,344	12,697
Expense arising from equity-settled transactions	34,644	10,751

Expense arising from equity-settled transactions in the amount of GEL 20,303 was recognised in net non-recurring expenses related to demerger of the Group.

30. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to investment risk, credit risk, liquidity risk and market risk. It is also subject to operational risks and insurance risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

All non-executive Board members of Georgia Capital PLC are also members of Supervisory Board of JSC Georgia Capital. JSC Georgia Capital established Audit, Investment and Remuneration Committees with the same terms of reference and the same members as those of Georgia Capital PLC. As such, all relevant decisions of Audit, Investment and Remuneration Committees of Georgia Capital PLC apply to the Group.

Risk management structure

Audit Committee

The Audit Committee of Georgia Capital assists the Management Board of the Group in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and assessed the effectiveness of the risk management and internal control framework.

Investment Committee

The Investment Committee ensures a centralised process-led approach to investment; and the over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns. It oversights each step of the investment lifecycle, approves all investment, divestment and material portfolio decisions and ensures that investments are in line with Group's investment policy and risk appetite.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Management Board

The Management Board of Georgia Capital has overall responsibility for the Group's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Board of Directors delegate individual risk management functions to each of the various decision-making and execution bodies within the Group.

Internal Audit

The Internal Audit Department of Georgia Capital is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. The Group's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries and countries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. Also the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established by the use of a credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type, etc). The calculation reflects reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in different geographical areas and industries.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

Liquid financial instruments

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group invests only on quoted debt securities with low credit risk. The Group's debt instruments at fair value through OCI comprised solely of quoted bonds. The Group recognised provision for expected credit losses on its debt instruments at fair value through OCI in the amount of GEL 117 in 2018.

The table below demonstrates the Group's financial assets credit risk profile by external rating grades:

	31 December 2018			*31 December 2017**		
	BB+ to BB-	***B+ to B-***	***Not graded***	***BB+ to BB-***	***B+ to B-***	***Not graded***
Cash and cash equivalents	226,261	23,940	3,148	321,814	23,863	564
Amounts due from credit institutions	24,776	15,354	169	35,159	2,982	-
Debt securities owned	70,668	1,156	-	31,556	351	-
Total	**321,705**	**40,450**	**3,317**	**388,529**	**27,196**	**564**

** Excluding GHG.*

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on the number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

31 December 2018	***Notes***	***Neither past due nor impaired***	***Past due or impaired***	***Total***
Amounts due from credit institutions	9	40,299	-	40,299
Accounts receivable	11	127,682	42,546	170,228
Insurance premiums receivable		56,955	846	57,801
Debt securities	10	71,824	-	71,824
Total		**296,760**	**43,392**	**340,152**

31 December 2017	***Notes***	***Neither past due nor impaired***	***Past due or impaired***	***Total***
Amounts due from credit institutions	9	38,141	-	38,141
Accounts receivable	11	27,501	7,836	35,337
Insurance premiums receivable		28,947	1,908	30,855
Debt investment securities available-for-sale	10	31,907	-	31,907
Total		**126,496**	**9,744**	**136,240**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue for more than 30 days are considered as impaired.

The Group does not have a grading system to evaluate credit quality of neither past due nor impaired assets. Maximum exposure to credit risk is limited to carrying value of respective financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

In addition, Group at all times holds US$ 50 million liquid asset buffer at Georgian parent company level, where liquid assets are defined as marketable debt securities, cash at bank and short-term and long-term deposits with financial institutions.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

Financial liabilities **As at 31 December 2018**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Borrowings	54,945	149,118	519,690	274,900	998,653
Debt securities issued	5,358	122,556	333,500	757,335	1,218,749
Accounts payable	129,028	3,734	10,351	-	143,113
Other financial liabilities	66,788	17,756	94,384	-	178,928
Total undiscounted financial liabilities	**256,119**	**293,164**	**957,925**	**1,032,235**	**2,539,443**

Financial liabilities* **As at 31 December 2017**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Borrowings	276,941	47,331	225,361	242,372	792,005
Debt securities issued	400	6,034	87,898	-	94,332
Accounts payable	27,425	-	15,562	-	42,987
Other financial liabilities	1,577	13,464	21,041	-	36,082
Total undiscounted financial liabilities	**306,343**	**66,829**	**349,862**	**242,372**	**965,406**

* *Excluding GHG.*

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Market risk (continued)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to Dollar.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2018 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2018		*2017*	
EUR	9.9%	(23,283)	12.0%	(15,569)
GBP	10.8%	69	12.6%	94
USD	7.1%	(23,594)	8.9%	4,996

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long term claims.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Insurance risk (continued)

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios were as follows:

	P&C Insurance		*Health Insurance*	
	2018, %	*2017, %*	*2018, %*	*2017, %*
Loss ratio	38%	40%	77%	84%
Combined ratio	75%	75%	94%	103%

The Group's concentration of general technical provisions by type of contract as of 31 December 2018 is as follows: healthcare GEL 19,154, motor GEL 17,417 (2017: GEL 16,616), property GEL 5,830 (2017: GEL 2,754), liability GEL 2,625 (2017: GEL 2,549), cargo GEL 1,142 (2017: GEL 804), life GEL 1,625 (2017: GEL 1,231) and other GEL 2,174 (2017: GEL 1,778). 2017 comparative figures are excluding GHG.

Capital Management

Management monitors the Group's capital on a regular basis based on statement of Net Asset Value (NAV) prepared under the adjusted IFRS methodologies. Net Asset Value (NAV) statement, which breaks down NAV into its components, including management estimated fair values for the private businesses and follows changes therein, providing management with a snapshot of the Group's financial position at any given time. NAV statement provides a value of Georgia Capital that management uses as a tool for measuring its investment performance. Management closely monitors NAV in connection with capital allocation decisions.

The capital management objectives are as follows:

- to maintain the required level of stability of the Group thereby providing a degree of security to the shareholders;
- to manage capital needs such that Group does not depend on potentially premature liquidation of it's listed investments;
- to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders; and
- to maintain financial strength to support new business growth and to satisfy the shareholder's requirements.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants if any. To maintain or adjust the capital structure, the Group may adjust the amount of outstanding equity.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimize the risk of default and insolvency and to meet unforeseen liabilities as they arise. During the year ended 31 December 2018 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

(Thousands of Georgian Lari)

31. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	151,232	151,232
Land	-	-	*49,128*	*49,128*
Residential properties	-	-	*14,196*	*14,196*
Non-residential properties	-	-	*87,908*	*87,908*
Debt securities owned	27,010	44,814	-	71,824
Equity investments at fair value	457,495	-	-	457,495
Total revalued property	-	-	386,399	386,399
Infrastructure assets	-	-	*386,399*	*386,399*
Other assets	-	-	18,668	18,668
Loans issued	-	-	*1,038*	1,038
Other derivative financial assets	-	-	*661*	*661*
Call option	-	-	*16,969*	*16,969*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	253,349	-	253,349
Amounts due from credit institutions	-	40,299	-	40,299
Accounts receivable	-	-	170,228	170,228
Other assets	-	-	162,862	162,862
Loans issued	-	-	*162,862*	162,862
Liabilities measured at fair value				
Other liabilities	-	-	715	715
Derivative financial liabilities	-	-	*715*	*715*
Liabilities for which fair values are disclosed				
Borrowings	-	506,711	254,056	760,767
Debt securities issued	-	678,973	184,551	863,524

31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	159,989	159,989
Land	-	-	*84,016*	*84,016*
Residential properties	-	-	*2,168*	*2,168*
Non-residential properties	-	-	*73,805*	*73,805*
Debt securities owned	-	31,907	-	31,907
Equity investments at fair value	-	-	1,153	1,153
Total revalued property	-	-	252,585	252,585
Infrastructure assets	-	-	*252,585*	*252,585*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	346,241	-	346,241
Amounts due from credit institutions	-	38,141	-	38,141
Accounts receivable	-	-	35,337	35,337
Other assets	-	-	101	101
Loans issued	-	-	*101*	*101*
Liabilities for which fair values are disclosed				
Borrowings	-	77,972	572,762	650,734
Debt securities issued	-	-	81,312	81,312

(Thousands of Georgian Lari)

31. Fair Value Measurement (continued)

Fair value hierarchy (continued)

Carrying value of assets and liabilities carried at amortized cost approximate their fair value due to their short-term nature. Carrying value of loans issued and derivative financial instruments mandatorily measured at fair value through profit or loss was GEL 167,215 and GEL 101 as of 31 December 2018 and 2017 (with gains recognized in income statement in the amount of GEL 5,205 and GEL 5,548, which was fully unrealized).

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The Group applies the binomial model for option valuation.

Derivative financial instruments include call option representing an option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC Gepha. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of parent company's market capitalisation from 1 January 2013 till 31 December 2017 period, which equalled 34.7%. If the volatility was 10% higher, fair value of call option would increase by GEL 2,533 (2017: GEL 1,989) if volatility was 10% lower call option value would decrease by GEL 2,770 (2017: GEL 1,940). The Group recognised GEL 6,863 (2017: GEL 10,106) unrealised gains on the call option during the year ended 31 December 2018 within other income, included in revenue in consolidated income statement.

Investment securities

Fair value of quoted debt and equity investments measured at fair value through other comprehensive income is derived from quoted market prices in active markets at the reporting date. The fair value of unquoted instruments is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	1 January 2017	*Purchase of securities*	*At 31 December 2017*	*Reclassification of securities*	*Transfer from AHS*	*Gain on revaluation*	*At 31 December 2018*
Level 3 financial assets							
Equity securities at FVOCI (2017: available-for-sale)	1,145	8	1,153	(1,153)	-	-	-
Call option	-	-	-	-	10,106	6,863	16,969

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 13 and 14 respectively.

(Thousands of Georgian Lari)

31. Fair Value Measurement (continued)

Fair value hierarchy (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2018		*2017*	
Level 3 financial assets				
Equity securities at FVOCI (2017: available-for-sale)	-	+/- 0	1,153	+/- 213
Other derivative, call option	16,969	+2,533/- 2,770	-	-

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2018	Valuation technique	Significant unobservable inputs	Range (weighted average)
Investment property	**151,232**			
Land	49,128	Market approach	Price per square metre	14 - 3,127 (1,162)
Residential properties	14,196	Market approach	Price per square metre	1,496 - 6,077 (4,413)
Non-residential properties	**87,908**			
	32,461	Market approach	Price per square metre	165 - 27,883 (5,089)
	55,447	Income approach	Capitalization rate	8% - 10% (9%)
			Occupancy rate	80% - 90% (85%)

(Thousands of Georgian Lari)

31. Fair Value Measurement (continued)

Fair value hierarchy (continued)

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average)
Investment property	**159,989**			
Land	**84,016**			
	70,513	Market approach	Price per square metre	12 - 2,705 (465)
	13,503	Cost approach	Price per square metre	56 - 83 (56)
Residential properties	2,168	Market approach	Price per square metre	1,892 - 3,194 (2,623)
Non-residential properties	**73,805**			
	52,260	Market approach	Price per square metre	12 - 8,756 (4,618)
	21,545	Income approach	Capitalization rate	8% - 10% (9%)
			Occupancy rate	80% - 90% (85%)

All other parameters held constant, increase (decrease) in the rent rate per square meter, price per square meter and occupancy rate or decrease (increase) in the capitalization rate would result in increase (decrease) in fair value.

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated historical financial information. The table does not include the fair values of non-financial assets and non-financial liabilities, or fair values of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2018	*Fair value 2018*	*Unrecognised gain (loss) 2018*	*Carrying value 2017*	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets						
Cash and cash equivalents	253,349	253,349	-	346,241	346,241	-
Amounts due from credit institutions	40,299	40,299	-	38,141	38,141	-
Loans Issued	150,300	163,900	13,600	101	101	-
Financial liabilities						
Borrowings	764,355	760,767	3,588	650,734	650,734	-
Debt securities issued	916,401	863,524	52,877	77,835	81,312	(3,477)
Total unrecognised change in unrealised fair value			**70,065**			**(3,477)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated historical financial information.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

32. Maturity Analysis

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2018			31 December 2017		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	253,349	-	253,349	346,241	-	346,241
Amounts due from credit institutions	29,884	10,415	40,299	36,382	1,759	38,141
Debt securities owned*	71,824	-	71,824	1,619	30,288	31,907
Equity investments at fair value*	457,495	-	457,495	-	1,153	1,153
Accounts receivable	153,106	17,122	170,228	35,203	134	35,337
Insurance premiums receivable	57,801	-	57,801	30,818	37	30,855
Inventories	214,253	64,362	278,615	72,074	8,036	80,110
Investment properties	-	151,232	151,232	-	159,989	159,989
Prepayments	62,333	55,485	117,818	79,246	8,514	87,760
Income tax assets	1,021	1,384	2,405	186	1,188	1,374
Property and equipment	-	1,671,917	1,671,917	-	657,635	657,635
Goodwill	-	142,095	142,095	-	21,935	21,935
Intangible assets	-	51,634	51,634	-	5,457	5,457
Other assets	80,507	170,955	251,462	44,716	25,154	69,870
Assets of disposal group held for sale	-	-	-	1,148,584	-	1,148,584
Total assets	**1,381,573**	**2,336,601**	**3,718,174**	**1,795,069**	**921,279**	**2,716,348**
Accounts Payable	135,826	7,288	143,114	32,231	10,756	42,987
Insurance contracts liabilities	60,555	7,652	68,207	39,443	6,960	46,403
Income tax liabilities	1,119	-	1,119	860	-	860
Deferred income	34,877	27,182	62,059	49,863	23,203	73,066
Borrowings	157,629	606,726	764,355	299,762	350,972	650,734
Debt securities issued	86,089	830,312	916,401	1,350	76,485	77,835
Other liabilities	128,044	107,136	235,180	44,065	19,141	63,206
Liabilities of disposal group held for sale				619,029	-	619,029
Total liabilities	**604,139**	**1,586,296**	**2,190,435**	**1,086,603**	**487,517**	**1,574,120**
Net	**777,434**	**750,305**	**1,527,739**	**708,466**	**433,762**	**1,142,228**

**Internationally listed debt and equity investments are allocated to "less than 1 year" rather than based on contractual maturity.*

(Thousands of Georgian Lari)

33. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at period/year end, and related expenses and income for the period are as follows:

	31 December 2018		*31 December 2017*	
	Management*	***Entities under common control *****	***Management****	***Entities under common control*****
Assets				
Cash and cash equivalents	-	-	-	308,645
Amounts due from credit institutions	-	-	-	18,450
Debt securities owned	-	-	-	31,721
Insurance premiums receivable	-	-	-	281
Prepayments	-	-	-	32
Loans issued*	-	-	-	-
Other assets	-	-	-	12,435
	-	**-**	**-**	**371,564**
Liabilities				
Derivative financial liabilities	-	-	-	1,091
Borrowings	-	-	-	50,970
Debt securities issued	2,596	-	389	53,209
Deferred income	-	-	1,740	-
Other liabilities	-	-	-	74
	2,596	**-**	**2,129**	**105,344**

	2018		*2017 (Represented)*	
	Management*	***Entities under common control *****	***Management****	***Entities under common control*****
Income and expenses				
Gross profit****	-	1,998	1,924	4,082
Salaries and other employee benefits	-	(428)	-	(943)
Administrative expenses	-	(527)	-	(598)
Net foreign currency (loss)	-	(675)	-	(6,954)
Interest income	-	4,482	-	5,005
Interest expense	-	(5,038)	-	(9,215)
	-	**(188)**	**1,924**	**(8,623)**

** During the year ended 31 December 2018 and prior to demerger, JSC Georgia Capital issued a loan to the former parent JSC BGEO Group in the amount of GEL133,830, presented in other assets in the consolidated statement of financial position. Since as at 31 December 2018 (post demerger) JSC BGEO Group does not represent a related party, this loan is not disclosed in the above table. As at 31 December 2018, one of the Group's subsidiaries, JSC m2 Real Estate has a loan issued to a joint venture JSC Isani Park in the amount of GEL 1,038. Interest income on loan issued to JSC Isani Park is GEL 73 as of 31 December 2018.*

***Entities under common control comprise of BGEO Group PLC's Banking Business subsidiaries.*

**** Management of JSC Georgia Capital consist of 5 executives and 6 members of supervisory board.*

*****The amount represent gross real estate profit received from key management personnel as a result of sale of apartments.*

(Thousands of Georgian Lari)

33. Related party disclosures (continued)

Compensation of key management personnel comprised the following:

	2018	2017 (Represented)
Salaries and other benefits	1,731	1,812
Share-based payments compensation	17,854	12,450
Long-term benefits	-	2,243
Total key management compensation	**19,585**	**16,505**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 29). The number of key management personnel at 31 December 2018 was 11 (31 December 2017: 16).

34. Events after the Reporting Period

Development of Commercial and Hospitality Business

On 6 February 2019 Group's Hospitality & Commercial Business, owned through m^2 Real Estate ("m2"), acquired remaining 40% equity stake in Kass 1 LLC. Following its initial acquisition in December 2017, m^2 held a 60% stake in the Company owning an under-construction hotel located in Tbilisi. The total consideration for the buyout was USD 5.2 million (GEL 13.9 million), where USD 0.3 million (GEL 0.8 million) was paid in cash and USD 4.9 million (GEL 13.1 million) was settled through bonds issued by the Commercial Real Estate Business.

Acquisition of Georgian beverages brand

On 25 March 2019 Group's Beverages business, owned though Teliani Valley acquired the brand name and commercial assets of Georgian beer and lemonade producer Kazbegi. Total cash consideration for the acquisition amounted to USD 3.65 million (GEL 9.77 million) excluding VAT.